STRATEGY Local Funding

OVERVIEW

Given limited state and federal funds for affordable housing, locally generated revenues play a crucial role in meeting community housing needs and creating inclusive communities. Local funds give localities the freedom to tailor housing activities and eligibility requirements to local needs and priorities. They are often used for a wide range of activities related to creating and preserving mixed-income communities, including affordable rental housing preservation, new home construction, property acquisition loans, homelessness prevention and building operation costs.

HOW IT WORKS

Local funding for affordable housing is often generated by a dedicated revenue source and is allocated through a housing trust fund. Some housing trust funds also rely on annual budget appropriations that vary year to year.

Compared to annual appropriations, dedicated funding sources are less threatened by political processes, but they too can be instable. For example, a fund that relies on revenue from a real estate transfer tax will be susceptible to fluctuations in housing market activity. Combining annual appropriations with funding from one or more dedicated revenue sources is the most effective way to generate a reliable stream of funding for local, affordable housing.

In the context of static and declining state and federal housing resources, local funding helps fill an important gap. Local funding sources also leverage other housing investments, often several times over. For example, the city of Seattle has found that it leverages three dollars for every dollar it invests in affordable housing development, using revenue from its property tax levy. For developers seeking competitive state and federal sources of funding, such as low-income housing tax credits, evidence of local funding support is often crucial to a successful application.

WHERE IT WORKS

According to 2013 research by the Center for Community Progress, local housing trust funds can be found in 73 cities, spanning 27 states, as well as hundreds more in Massachusetts and New Jersey, where state laws create strong incentives for local adoption.

Funding sources vary widely from jurisdiction to jurisdiction and are most successful when they are structured to take into account local economic conditions. For example, a community with an active real estate market may be able to raise significant housing funds through a developer fee or real estate transfer tax. A community with a high rate of tourism may benefit more from a hotel/motel tax allocated toward housing. Communities experiencing a decline in their real estate market may find document recording fees for births and marriages to be a stable funding source.

Local revenues can be particularly important in smaller, wealthier communities that do not receive federal housing block grants.

POLICY AND PROGRAM TOOLS

Property Tax Levies

In communities with high levels of support for affordable housing, a property tax levy can be a viable source of funding for preserving and creating affordable housing. These taxes are levied as a percentage of the assessed value of a property and are often implemented over a set period of time as a supplemental levy in addition to the locality's general property tax rate. Typically, property tax levies are applied to all local property—commercial as well as residential.

CASE STUDY

Local Housing Levy (Seattle)

Since 1981, Seattle voters have approved one bond and four property tax levies to fund affordable housing development and preservation in the city. The current levy, passed in 2009, is active through 2016 and is set at $17 per $100,000 of assessed property value, or approximately $79 a year for the average homeowner as of 2009. It is expected to provide $145 million to the city's Low Income Housing Fund over a period of seven years.

On average, Housing Levy capital funds leverage other public, philanthropic and private resources by a ratio of three to one. Between 2010 and 2014, with the help of this leverage, the fund created 1,971 long-term affordable apartments, rehabilitated 410 homes, prevented homelessness for 1,882 households and enabled 148 first-time homebuyers to purchase a home. Since 1981, revenue generated from the property tax levy has partially financed the development of 11,000 affordable apartments, administered down payment loans to more than 600 first-time homebuyers and provided rental assistance to more than 4,000 households.

Levy resources have being invested in both low- and higher-poverty communities throughout the city. More than half of the levy's rental funding must be used to serve households earning 30 percent of area median income or less.

For More Info:
City of Seattle Office of Housing
Email: Housing@seattle.gov

Commercial Linkage Fees

Commercial linkage fees are collected on new commercial construction to help increase the supply of homes that are affordable to local workers. Linkage fees are very dependent on a healthy economy, because they rely on new commercial development. As a result, these fees, while often a viable source of funding, will fluctuate with market conditions.

CASE STUDY

Linkage Fees (Boston)

In 1986, the city of Boston created the Neighborhood Housing Trust with a dedicated funding source from a linkage fee on commercial developments. The fee applies to all new or expanding office, retail, hotel and institutional developments exceeding 100,000 square feet that are requesting zoning relief. As of 2015, the fee was $8.34 per square foot.

Annual revenue from the linkage fee has averaged $6,500,000 a year and has been very stable over time. Through 2014, the Neighborhood Housing Trust has invested nearly $150 million, helping to create or preserve 10,725 affordable units in 206 developments.

Developers in the downtown area are granted a seven-year pay schedule, while developers in neighborhood districts are given 12 years to pay the linkage fees. Developers may also fulfill their linkage obligation by creating or directly assisting in the creation of affordable housing units. Under municipal law, revenue from these fees can only be used to create or preserve housing that is affordable to low- and moderate-income households in the city.

For More Info:
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Residential Impact Fees

Impact fees, similar to linkage fees, seek to mitigate the negative impact of new residential development on housing affordability. Impact fees are often justified with the argument that new residential growth leads to more demand for goods and services, which leads to the creation of lower-wage retail and service jobs and a greater demand for affordable housing. Additionally, new market rate housing can cause an increase in property values in surrounding neighborhoods, putting upward pressure on housing costs. Similar to commercial linkage fees, impact fees often take the form of a fee per square foot of new development and are used to help finance affordable housing in various forms.

CASE STUDY

Affordable Housing Impact Fee (San Jose, Calif.)

In 2014, the San Jose city council adopted an Affordable Housing Impact Fee program to help create and preserve affordability within the city. The new policy requires developers of market rate rental property with three or more units to pay a one-time fee of $17 per finished, livable square foot. Beginning in July of 2017, the fee will increase by 2.4 percent each year, and when the program is fully operational, it is expected to generate between $20 and $30 million per year. The Affordable Housing Impact Fee excludes for-sale property developments, because the city's inclusionary housing program is already in place to generate revenue from those projects.

For More Info:
http://www.sanjoseca.gov/index.aspx?nid=3979

Document Recording Fees

A per-page surcharge on all documents added to the public record, such as birth certificates, deeds of trust and marriage licenses, can be another source of local funding for affordable housing. This funding source is particularly successful in communities with a weaker residential and/or commercial market that cannot raise funds through real estate activity.

CASE STUDY

Document Recording Fees (Philadelphia)

In 2005, Philadelphia established an Affordable Housing Trust Fund with dedicated revenue from document recording fees. Fees for the recording of deeds and mortgages in the city provide the fund with annual revenue of $7 to $13.8 million. The fund receives $102 from each deed recorded by the city and a series of mortgage fees of nearly $90 per document.

For a recently established program, Philadelphia's Affordable Housing Trust Fund has made a significant impact. The fund has been able to partially finance the development of over 1,300 new affordable homes, preserve nearly 9,000 homes and prevent over 5,500 people from experiencing homelessness (as of 2012). Since its inception, the trust has leveraged more than $337 million in non-city funds.

For More Info:
http://philadelphiahousingtrustfund.org/

Demolition Taxes

Demolition taxes usually require property owners to pay a fee and/or tax for every demolished residential unit. These taxes seek to prevent the loss of affordable housing to new, often more high-end, development. Demolition fees work best in areas with a hot real estate market and should be avoided in areas with high levels of blight or abandoned properties. The goal of a demolition tax is to offset the negative impact of new development, rather than to discourage demolition of unsound buildings.

CASE STUDY

Municipal Demolition Tax (Highland Park, Ill.)

In 2002, Chicago suburb Highland Park established an Affordable Housing Demolition Tax to fund the city's Affordable Housing Trust Fund (created in the 1980s). The city became concerned that the demolition of housing in Highland Park was leading to a reduction in the diversity of the city's housing stock and resulted in fewer affordable options. To correct for this effect, the city imposes a fee of $10,000 per building or $3,000 per residential unit (whichever is greater) on properties of which 50 percent or more is demolished. The tax does not apply in the case of demolition for the development of affordable housing, if the occupant has owned the home for five years and plans to own the home for at least five years after the demolition or in the case of city-ordered demolitions.

The tax brings in around $750,000 annually. As of 2013, the tax has generated more than $3.1 million, which has been used to leverage an additional $5 million in outside funds to help fund the development of 44 permanent affordable housing units. The majority of the revenue received is allocated to the city's housing trust fund, while one-third goes into the city street and bridge fund. The housing trust fund also receives funding from a $400 per unit demolition permit fee, as well as inclusionary zoning in-lieu payments.

For More Info:
https://www.cityhpil.com/DocumentCenter/Home/View/411

Real Estate Transfer Taxes

Real estate transfer taxes (RETTs) are a surcharge on the sale of property, levied on the seller, the buyer or both parties. The fee generally increases with the size or value of the property changing hands and is most traditionally levied by state or county governments, but may also be collected by some municipalities. In healthy real estate markets, the tax can be a dependable source of revenue for affordable housing.

CASE STUDY

Affordable Housing RETT (Aspen, Colo.)

The city of Aspen is a booming tourist destination made up of both short- and long-term residents. Over the years, the city has struggled to house a large population of service and retail workers that cannot afford resort-town rents and home prices. Beginning in 1990 and expiring in 2040, the city funds most of its affordable housing production with a one percent real estate transfer tax. In a city of 6,700 residents, the tax generates about $6 million a year, making it the highest revenue stream for housing in the state, according to a 2013 report from Rees Consulting. The tax is imposed on all types of developed and undeveloped land and exempts the first $100,000 of each sale. Over the years, the lifespan of the tax has been extended by public vote. As recently as 2008, voters once again voted to extend the tax's expiration date from 2024 to 2040.

For More Info:
http://www.aspenpitkin.com/Departments/Finance-City-of-Aspen/Real-Estate-Transfer-Tax-(RETT)/

Hotel/Motel (Transient Occupancy) Taxes

Most major cities generate significant revenue through hotel/motel taxes from tourism and convention business. Hotels and motels also generate a significant amount of lower-paying jobs, and many cities lack sufficient housing that is affordable for these workers. The use of hotel tax revenue for affordable housing can mitigate these negative impacts. Additionally, transient occupancy taxes on short-term vacation rentals may also offset the negative impact such rentals may have on the local rental housing supply.

CASE STUDY

Hotel/Motel Tax (Columbus, Ohio)

In 2001, the city of Columbus, Ohio, created an Affordable Housing Trust Fund with dedicated revenue from its hotel/motel tax. An 8.37 percent hotel tax (a portion of the city's 10 percent hotel tax) is committed to affordable housing and programming and usually generates between $1 and $1.5 million a year. Soon after the creation of the trust, Franklin County, Ohio, joined the city as a funding partner and currently contributes half of its own two percent real estate tax to the fund. This tax adds another $3 to $3.5 million to the fund each year. The fund acts as an independent, not-for-profit lender that provides loans for affordable rental, supportive and homeownership projects in the city. As of 2014, the fund had committed $39.3 million in loans to affordable housing developers, contributing to the creation or preservation of over 8,000 affordable units, according to the Trust's 2015 annual report.

For More Info:
Steven Gladman, Affordable Housing Trust for Columbus and Franklin County
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Tax Increment Financing

Tax increment financing (TIF) has become a popular source of revenue for economic development projects in many cities, but can also be leveraged for the development of housing. TIF is used within 48 states to finance redevelopment projects against the anticipation of future tax revenue resulting from new development. While the base amount of property tax revenue (the level before redevelopment investments) continues to fund city services, the increase in tax revenue is used to pay bonds, reimburse investors and is often captured as city revenue and allocated toward other projects. While TIF policies may vary by state, the use of TIF revenue to finance affordable housing programs can ensure that new economic development and growth does not have a negative impact on affordability in the city.

CASE STUDY

RDA and TIF Revenue (Salt Lake City)

Since the early 1970s, the Salt Lake City Redevelopment Agency (RDA) has dedicated a percentage of TIF income toward housing projects, serving households at a variety of income levels. From 1999 to 2009, the RDA contributed a total of $6,656,687 to the Salt Lake City Housing Trust Fund. In addition to these contributions, the RDA allocates revenue into two RDA housing funds: a project-area housing fund and a citywide housing fund. Between 1980 and 2010, RDA TIF income had provided partial funding for a total of 1,516 housing units in 29 projects affordable to households earning less than 80 percent of area median income.

For More Info:
http://www.slcrda.com/projectareas/housing.htm

Annual Appropriations

While a dedicated funding stream is highly desirable, annual appropriations from the city's general fund can be an important source of local funding for affordable housing under certain circumstances. Annual appropriations are funds made available for specific purposes as part of annual budgets passed by locally elected representatives. Some communities have found that initial awards of discretionary appropriations, or general obligation bond revenues, can be useful as a starting point for capitalizing a housing trust fund and building momentum for the eventual transition to a dedicated funding source. Additionally, in cities with dedicated funding sources, annual contributions may offset unreliable revenue patterns, or allow the city to make much larger commitments to housing than would be available through their dedicated source. Relying on annual appropriations alone, however, can lead to uneven and unpredictable financial support for affordable housing providers, given the susceptibility of appropriations to annual budget negotiations.

CASE STUDIES

Housing Production Trust Fund (Washington, D.C.)

The District of Columbia's Housing Production Trust Fund was created in 1988 with no dedicated source of funding, but with the hopes that the city would find funding in coming years. In 2001, the fund received a one-time contribution of $25 million from the sale of city-owned property, and in 2002 the city established a dedicated funding source for the fund. As of 2015, the fund receives 15 percent of all deed recording fees and real estate transfer taxes collected within the city. Due to a fluctuating real estate market, these funds have been unreliable throughout the years, and the city has grown accustomed to allocating revenue from the general fund into the trust fund on an annual basis.

In 2013 and 2014 combined, the fund received approximately $193 million from the city, according to a report by the DC Fiscal Policy Institute. For fiscal year 2016, the city has allocated a total of $213 million in funding for affordable housing programs in the city ($100 million of which will go directly into the housing production fund, the remainder to rental assistance and other housing programs). The fund will also receive $50 million from dedicated revenue sources. Upcoming contributions from the city are the highest funding levels that affordable housing programs have received in D.C. The Housing Production Trust Fund allocation is projected to renovate or create up to 1,000 new homes in the city. As of 2012, the trust fund has contributed to the creation of over 8,500 affordable homes, invested $320 million in D.C. neighborhoods and leveraged an additional $794 million from outside sources.

For More Info:
http://www.cnhed.org/hptf/

San Francisco Housing Trust Fund (San Francisco)

The San Francisco Housing Trust Fund was established under the 2012 voter-approved Proposition C, as a response to the 2012 dissolution of redevelopment agencies in the state. The fund receives an annual allocation from the city, which started at $20 million. The city's contribution to the 30-year fund will continue to grow annually until it reaches a cap of $50 million in annual revenue. The set-aside amount will total $1.2 billion over the fund's 30-year lifespan.

Allocations come directly from the city's general fund, but will draw primarily on resources that were already devoted to affordable housing, including a portion of hotel tax revenue and new revenues from a 2012 business tax reform measure.

Funding will be used to support affordable housing development, private market incentives for affordable housing and down payment assistance. The trust fund revenue is projected to support nearly 9,000 units affordable to households earning 60 percent of median family income and will invest at least $15 million over the first five years in the city's down payment assistance program.

For More Info:
http://www.sfhac.org/policy-advocacy/affordable-housing-trust-fund/

Regional Affordable Housing Trust Funds

Some areas may find that tackling their affordable housing challenges and creating more inclusive communities requires a regional approach. Many areas in the U.S. are economically interdependent, and changes in one housing market often impact neighboring jurisdictions. Additionally, in areas made up of many small municipalities, pooling resources may be the best way to attract larger-scale affordable housing development and thus, have a larger impact. To this end, regional coalitions may be formed to create inter-local funding sources by combining municipal revenue into one, large regional fund.

CASE STUDY

ARCH Housing Trust Fund (King County, Wash.)

Recognizing that affordable housing was a regional problem requiring a regional solution, municipalities in east King County formed ARCH, A Regional Coalition for Housing, in 1992. In 1993, ARCH established a regional housing trust fund with some unique features. The ARCH Housing Trust Fund enables municipalities in east King County to pool their resources, which can be spent in any of the municipalities to create or preserve housing for low- and moderate-income individuals.

Currently 13 municipalities in east King County contribute to the fund annually. Funds are made available through loans, and grants and are offered through an annual application round. Municipalities are able to contribute funds in a variety of ways, including offering fee waivers or land donations to developers. Common revenue sources for municipal contributions include general fund allocations, Community Development Block Grant funds, developer payments, loan repayments and interest earnings.

Funds collected from member jurisdictions are then distributed regionally, based on the needs in the county. Applications can be submitted by nonprofit organizations, private organizations, public housing authorities and public development authorities. From there, ARCH's Citizen Advisory Board makes project recommendations, which are confirmed by the Executive Board and approved by individual city councils.

The fund has a minimum goal of $1 million of new local funds annually, but when accounting for all sources (e.g., land donations, fee waivers, loan repayments) the fund has averaged approximately $2 million annually.

As of 2015, member jurisdictions had contributed $45 million to the ARCH Housing Trust Fund. Housing Trust Fund resources have been used toward new housing development, preservation and rehabilitation. Since its inception in 1993, the fund has helped finance the creation of over 3,100 new housing units in east King County. ARCH credits its success to its ability to engage key stakeholders in a regionally collaborative process, the willingness of development partners to undertake creative partnerships and its ability to remain responsive and flexible to community, developer and other funders' needs.

For More Info:
Arthur Sullivan, ARCH
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RESOURCES

Research and WebTools

- Housing Trust Fund Project (Center for Community Change, 2015)
- A Survey of Revenue Tools to Fund Affordable Housing and Services in the Portland Metro Region (Welcome Home Coalition, 2014)
- Municipal Affordable Housing Trusts: How to envision, gain support and utilize a local trust to achieve your housing goals (The Massachusetts Housing Partnership, 2013)
- Increasing Local Revenues for Affordable Housing Programs (The Alliance for Housing Solutions, 2010)
- Impact Fees and Housing Affordability (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2008)
- Housing Trust Fund Progress Report (Center for Community Change, 2007)
- A Decade of Progress: Investing in Lives and Neighborhoods through the Housing Production Trust Fund (Coalition for Nonprofit Housing and Economic Development)
- Overview of Best Practices in Affordable Housing (City of Austin, Texas)
- Presentation on State and Local Housing Trust Funds (PPT) (Mary Brooks, Housing Trust Fund Project)

Organizations

- **A Regional Coalition for Housing (King County, Wash.).** A quasi-governmental organization that helps suburban municipalities develop and preserve affordable housing.
- **Center for Community Change.** The Center's Housing Trust Fund Project has been the leading, national source of information on housing trust funds throughout the country for nearly 30 years, and provides technical assistance to organizations and agencies working to create and implement these funds.
- **Coalition for Nonprofit Housing & Economic Development.** A Washington, D.C., umbrella organization for city nonprofits engaged in community development. Led the successful campaign to secure $100 million in annual appropriations for the city's housing trust fund.