OTHER SOURCES OF FINANCING

Housing Trust Funds

Strategy description

Housing trust funds (HTFs) are funds established by cities, counties and states to dedicate public sources of revenue to support affordable housing. A property tax surcharge or housing levy is a common method of funding housing trust funds. HTFs can be used for a variety of purposes, including creation and maintenance of affordable housing, homebuyer assistance, and rental housing subsidies. The financial support may be in the form of gap financing or loans for the development of affordable housing or pre-development or institutional support for nonprofit housing developers. The trust fund may feed resources into a revolving loan fund. Whatever the form of the financial assistance, there may be a requirement for leverage of additional sources of support.

History of the strategy

Housing trust funds have a history of about 30 years.

Target population

Low- and moderate-income renters and homebuyers.

How the strategy is administered

- Some housing trust funds are private nonprofits, funded by charitable contributions and other fundraising. A board of directors typically administers these.
- Public housing trust funds are administered by a public agency, often with an oversight board. These trust funds require legislation enacted at the state or local level.

How the strategy is funded

Housing trust funds are funded with a variety of sources of revenue. These may include a property tax surcharge, a bond issuance, a demolition tax, real estate taxes or fees (e.g., transfer taxes and recording fees), in-lieu fees contributed by developers under inclusionary zoning requirements, tax increment funds, and general revenue funds.

Extent of use of the strategy

Widely used: there are nearly 600 housing trust funds in 43 states nationwide.[119]

Examples of locations where the strategy is being used

- Five states, Iowa, Massachusetts, New Jersey, Pennsylvania, and Washington, have passed state-level legislation that enables or encourages the creation of local trust funds.
- Massachusetts matches funds set aside in local trust funds under the Community Preservation Act.

- Thirty-eight states have a state-level housing trust fund.

Strategy results

The nearly 600 housing trust funds nationwide generate more than $1.6 billion a year for affordable housing.[120]

Pros and cons to using the strategy

Pros:

- Establishes a dependable stream of revenue to fund affordable housing initiatives.
- Can be tailored to local affordable housing policies and needs.

Cons:

- Requires renewed sources of public funding over time.
- Can be perceived as another layer of bureaucracy.
- Requires administrative oversight to set policies, issue RFPs, underwrite loans and grants, and monitor awarded funds.
- May be difficult to win public approval for the source of revenue required to fund the trust fund.

Sources of information about the strategy

- Equitable Development Toolkit: Housing Trust Funds. A publication of PolicyLink. Available at: www.policylink.org/EDTK/HTF/How.html
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Center for Community Change
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MARYLAND AFFORDABLE HOUSING TRUST

✓ Housing trust funds

Maryland's Affordable Housing Trust (MAHT), one of more than 600 trust funds nationwide, uses an innovative source of funding to generate needed resources for affordable housing. The Maryland state legislature created the Trust in 1992 to establish a fund to enhance the availability of affordable housing throughout the state.

Funding comes from a portion of the interest generated by title company escrow accounts. In Maryland, these accounts can generate over $5 million in annual revenue, which is used to leverage nearly 20 times that amount of funding from other sources. In total, the combined funding is used to produce hundreds of housing units each year.

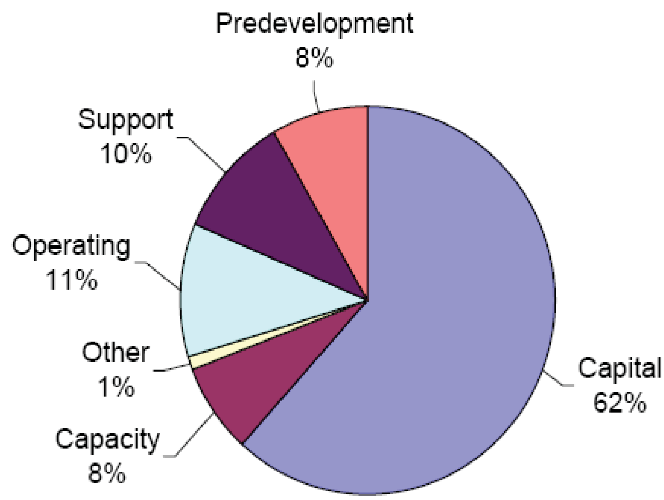
The funding mechanism is modeled after Interest On Lawyers Trust Accounts (IOLTA), which were first established as an innovative way to generate funds for legal services to the poor. Under IOLTA, lawyers are required to create trust accounts for the funds they receive from clients. If client funds are too small or held for too short a time to earn interest for the client, they are placed in a pooled interest-bearing trust account that generates interest that neither the client nor the lawyer would have otherwise received. The interest generated from the pooled account is distributed through local grants to nonprofit organizations.

Similarly, the MAHT Act requires each title insurer or title insurance agent to pool individual client trust accounts if they are not expected to generate sufficient interest (usually $50 or less) to warrant opening a separate interest-bearing account. Interest on the pooled account is paid to MAHT, which distributes funds via a competitive application process.

The MAHT is governed by an 11-member board of trustees and is staffed by the State Department of Housing and Community Development. The board includes representatives from eight different groups: title companies, the Maryland Low Income Housing Coalition, financial institutions, local governments, nonprofit housing developers, for-profit housing developers, public housing authorities, social services providers. In addition, three representatives of the general public serve on the board.

Funds are distributed in two annual funding rounds in which local nonprofit organizations, public housing authorities, government agencies, or for-profit entities can apply for loans or grants. MAHT funds may be used for a variety of activities including capital costs, operating expenses, capacity building, supportive services, or predevelopment costs (see figure).

Aggregate Awards by Activity Funded, 1992-2007



Source: Maryland Affordable Housing Trust 2007 Annual Report.

Projects eligible for MAHT funding must contribute to affordable housing targeted at households earning less than 50 percent of the area median income (AMI), with preference given to projects targeting households earning less than 30 percent AMI. Preference is also given to:

- Housing development projects that offer the longest term affordability
- Capital projects serving those most in need
- Projects providing both housing and self-sufficiency assistance for families with children
- Projects serving single adults needing single-room occupancy permanent housing

Examples of 2007 award recipients include Habitat for Humanity local affiliates, local homeless shelters, the City of Westminster Affordable Housing Initiative, and the Housing Authority of the City of Annapolis.

During FY07, the MAHT received $5.3 million in revenue – an increase of $1.1 million from 2006. Since 1992, they have received a total of $29.4 million in trust account revenue and have awarded 467 grants in 53 jurisdictions. Because MAHT awards tend to only cover a portion of project costs, their goal is to use its funds to leverage dollars from other sources. During FY07 MAHT used $4.6 million of their own funds to leverage over $96 million in total project and program development costs. Leveraged monies came from public funds at the local, state, and federal levels as well as private financing and foundation grants.

The funding structure of the trust fund makes it vulnerable to conditions in the local real estate market. With the recent slowdown in the housing market, MAHT has seen a downturn in revenues. In addition, the structure of the trust fund, which gives control to the Maryland Insurance Administration,[121] presents a challenge to managing the fund. For example, MAHT must ask permission to audit title account activities.

"Some places don't have many places to go for resources. For them, a little money goes a long way."

-Ron Callison

Regardless, the Trust has been successful at filling a funding gap for affordable housing development by providing a stable and flexible funding source that supports a variety of activities. In the past 10 rounds of funding, the MAHT has funded 69 percent of its applicants and 51 percent of the requested funds. While in some cases award amounts may be relatively small, Callison notes, "Some places don't have many places to go for resources. For them, a little money goes a long way."

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Housing-Linked Deposits

Strategy description

Under an affordable housing linked deposit program, an investor (either a government entity or a non-profit organization) deposits capital in a bank at a below-market interest rate, most often in the form of a certificate of deposit. The bank invests the capital at market rate, resulting in a profit for the bank. The bank then uses the profit to lower the interest rates on loans it makes to potential affordable housing developers. In turn, developers apply for loans on land acquisition, site development, construction and rehabilitation pertaining to affordable units. The strategy is similar to community development linked deposits and economic development linked deposits, but with a focus on funding for housing.

History of the strategy

Housing-linked deposits were used at least as early as 1989, in Ohio.

Target population

- Oklahoma: For multifamily and single-family rental units, qualifying families must have income at or below 110 percent of the area median for the county in which the project is located. For single-family home ownership, the sales price must not exceed the Oklahoma Housing Finance Agency's Mortgage Revenue Bond price limit.
- Ohio Community Development Finance Fund: Qualifying units must be affordable for low-income residents, defined as those with income below 80 percent of area median.
- Generally targets low- and moderate-income renters and homebuyers.

How the strategy is administered

Linked deposit programs can be administered at the state level (as in Oklahoma), the county level (as in Montgomery County, Ohio and Loudoun County, Virginia) or through a non-profit (for example, the Ohio Community Development Finance Fund).

How the strategy is funded

The capital for initial certificates of deposit is provided by the authorizing government agency or a non-profit organization.

Extent of use of the strategy

Use is limited to a handful of places.

Examples of locations where the strategy is being used

- Oklahoma operates an affordable housing linked deposit program that offers savings to developers of up to three percentage points on financing for qualified single-family and multifamily housing. A total of $25 million is available for reduced interest rate loans.
- Montgomery County, Ohio's linked deposit program also offers loans at three percentage points below the market interest rate. Loans may be used for new construction of housing or major rehabilitation.
- The Ohio Community Development Finance Fund is a public/private partnership that provides below-market interest rate loans to community-based non-profit developers for permanent or construction financing. The linked deposit program is funded from both public and private sources of capital.
- Loudoun County, Virginia deposits funds with banks that agree to provide affordable mortgage products, homeownership seminars, and home mortgage loans for low-income households.

Strategy results

The Ohio Community Development Finance Fund's linked deposit fund has made investments totaling $24 million in 125 projects, creating 3,841 units of new or rehabilitated housing.[122]

Pros and cons to using the strategy

Pros:

- Creates meaningful public/private partnerships that could potentially bring other lending services to low-income communities.
- If implemented properly, the investor stands to break even.

Cons:

- The program is dependent on investors continuing to make low-rate deposits at the lender organizations. A lack of additional investments for further linked deposits could cut off funding for additional housing development.

Sources of information about the strategy

- Oklahoma state website, Linked Deposit Programs, www.ok.gov/~sto/rblink.html.
- Montgomery County, Ohio website, www.co.montgomery.oh.us/montcnty/LD/images/housing_info.pdf
- Finance Fund website, www.financefund.org/linkeddepositfund.asp.
- Article about the Ohio Community Development Finance Fund on the St. Louis Federal Reserve's website: http://stlouisfed.org/publications/br/2007/b/pages/3-article.html

- Article about Loudoun County's linked-deposit program, "'Wow! Why Don't We Do That in Our Jurisdiction?' The Washington Region's Best Affordable Housing Practices," available at: www.mwcog.org/uploads/pub-documents/8lxYXA20050204145207.pdf

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Linkage Fees

Strategy description

In many urban areas, commercial development outpaces the construction of affordable housing. This can create a jobs-housing imbalance in that there is not enough housing to support the area's workforce. Linkage fees, which are a type of impact fee, aim to correct this imbalance by linking commercial development to affordable housing development. Developers of commercial properties are charged a fee, usually assessed per square foot. The fees are used to construct affordable housing and address other community needs. In some cases, developers may have the option of building the affordable housing units themselves. In exchange for payment of the linkage fee, the developer receives a building permit. The fee typically applies to some combination of office, retail, hotel, and industrial development. Smaller developments are often exempted.

History of the strategy

Linkage fees were first used in the central business districts of metropolitan areas in the 1970s and early 1980s in San Francisco, and later in Boston and Seattle. In the mid 1980s their use and scope expanded beyond the central business districts to the rest of the city, including retail and hotel properties.[123]

Target population

Linkage fees target low- and moderate-income homebuyers and renters.

How the strategy is administered

Once a linkage fee law or ordinance is passed, administration consists of enforcing the ordinance. Linkage fees are usually assessed per square foot of nonresidential, job-generating construction.

How the strategy is funded

No funding is necessary other than costs for administering the program. The funds generated from nonresidential and market-rate residential development in linkage fee districts are placed in trust funds for affordable housing.

Extent of use of the strategy

- Use is limited to larger cities such as Boston, Seattle, and San Francisco, and a few smaller municipalities including Watsonville, CA and Winter Park, FL.
- California has the highest concentration of linkage programs; in 2004 there were 20.

Examples of locations where the strategy is being used

- Florida's Development of Regional Impact statute includes a combination of a linkage fee and an inclusionary zoning ordinance that applies to the jurisdiction in which the large commercial development is located.
- The Chicago region is developing a regional linkage program in which fees are paid by municipalities rather than developers and are calculated based on increasing commercial tax bases.
- In California, programs have been implemented in Berkeley, Sacramento, San Diego, San Francisco, and other cities.
- In Massachusetts, Boston's linkage fee applies to commercial and institutional developments with more than 100,000 square feet; Cambridge's fee applies to commercial and institutional developments with more than 30,000 square feet.[124]
- New Jersey's linkage fee uses a formula linked to the number of employees that will occupy the new development. The formula assesses one affordable housing unit for every 25 employees added to the community. New Jersey is the only state with a mandated program for all municipalities.

Strategy results

Revenues vary widely. San Francisco has generated more than $60 million, San Diego $54 million and Sacramento more than $12 million. Smaller markets generate much less; Winter Park has generated less that $2 million. Others include Sacramento, $11 million (city), $15 million (county); Cambridge, $750,000, with $2.5 in pipeline; Berkeley, $1.93 million; Boston, $45 million.[125]

Pros and cons to using the strategy

Pros:

- Linkage fees can provide a new, local income stream for affordable housing projects.
- The link between job growth and affordable housing helps to avoid a housing-jobs imbalance.
-

Cons:

- Funds may go to general revenues rather than to a housing trust fund, leaving affordable housing problems unaddressed.
- Linkage fees can have negative impacts on small, local businesses if they are not exempted.
- The nexus between the new development and the need for affordable housing must be established in order to withstand legal challenges. In addition, the fee must be proportional to the impact of the new development on the community.

- The higher cost of commercial and other space that results from a linkage fee may discourage employers from locating in the city.
- It is difficult to get support from developers to impose such a fee.
- Fee levels and the effectiveness of the strategy are dependent on the strength of the real estate market. Fees vary from a high of $14.96 per square foot for office space in San Francisco to a low of $0.35 for commercial and industrial in Watsonville, California. Winter Park, Florida is increasing their linkage fee from $0.30 to $.50 per square foot.[126]

Sources of information about the strategy

- Ross, Jaimie. "Growing Smarter Through Affordable Housing," Foresight: Fall, 2000. Available at: www.1000friendsofflorida.org/housing/Growing_Smarter.asp
- Broward County, FL Commission Committee, Linkage Fees. Available at: www.broward.org/commissioncommittees/related/attainable/linkage_fees.pdf
- Equitable Development Toolkit: Commercial Linkage Strategies. A publication of *PolicyLink*. Available at: www.policylink.org/EDTK/Linkage/How.html

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CAMBRIDGE, MASSACHUSETTS
LINKAGE FEES

- ✓ Linkage fees
- ✓ Expedited permitting and review policies
- ✓ Affordable housing trust fund

An important challenge for cities with a growing commercial sector is housing the new workers who move in as employment increases. In many places, the result of strong job growth is increasingly unaffordable housing—for both low- and moderate-income households—as competition for the existing housing heats up. Cambridge uses linkage fees to help balance job growth with housing growth, along with a number of other strategies to fund affordable housing.

The linkage fee, called the incentive zoning ordinance in Cambridge, was implemented in 1988. The ordinance requires developers of certain non-residential projects to mitigate the impact of their development by contributing $4.25 per square foot to the city's affordable housing trust fund. Office developers who request increases in density or intensity of use are assessed the fee. Since 1988, the fee has generated $2.8 million for housing.

Susan Glazer, deputy director of Cambridge Community Development, says there has been little opposition to the incentive zoning ordinance, perhaps because the city is efficient in processing applications for commercial construction. Another factor is likely to be the city's commercial tax rates, which are low in comparison with surrounding towns and cities.[127]

"We have a fairly expeditious permit process," said Glazer. "We try not to hold developers up too much – that's worth something to developers."

The city works with developers prior to planning board meetings to resolve substantive issues. "We try to iron out problems ahead of time," said Glazer. "We can anticipate a lot of the planning board's questions, so we work with developers to refine their presentation materials."

Because of this preparation, Glazer says developers often get approval for their project the night of the hearing. She said that even if the application is not approved the night of the planning board hearing, problems that prevent approval are typically resolved very quickly so developers' applications are approved at the next meeting, a delay of only two weeks.

Glazer said the entire permit application process in Cambridge takes three to five months for a typical commercial project involving a single building. After the application is submitted, she said it takes about a month to schedule a hearing. The planning board writes up its decision, and after a 20-day appeal period, the application is usually finalized. She noted that an application for a planned unit development (PUD) takes longer, because it requires two hearings, and developers are more likely to be seeking flexibility in such areas as the allowable floor-area ratio.

"We're trying to get more housing to accommodate all those people."

-Susan Glazer

Glazer said the city's incentive zoning ordinance is working. "It's creating development and a source of funding for housing. We're attracting more and more businesses, and they bring jobs," she said. "We're trying to get more housing to accommodate all those people."

In addition to the incentive zoning ordinance, Cambridge's affordable housing trust fund has several other sources of revenue. One of these is tax revenue collected under the Massachusetts Community Preservation Act (CPA). Under the CPA, towns and cities in Massachusetts can choose to adopt the act, levying up to a 3 percent surcharge on taxable property.[128] The local tax revenue is matched by state funds, which can be used for open space, historic preservation, community housing initiatives, and recreation.[129]

In the 2006 fiscal year alone, the Cambridge City Council appropriated $9.6 million generated from the CPA to the trust fund. In addition to these funding sources, the trust fund also receives private contributions. Since it was established in 1988, the trust fund has financed the creation and preservation of more than 1,800 affordable housing units in the city.[130]

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Tax Increment Financing

Strategy description

Tax increment financing (TIF) is a tool used to raise revenue for community redevelopment, including the production of affordable housing. Communities use TIF to pay for projects with the increased property tax revenues that these projects are expected to produce. A community designates a tax increment district and estimates future tax revenues based on the assumption that the district would not grow in the absence of redevelopment activity. Revenues above this estimate are used to fund redevelopment projects in the district. In some instances, jurisdictions borrow against expected tax increment revenues.

History of the strategy

California was the first state to use tax increment financing, implementing the first TIF district in 1952. Every other state except Arizona has since followed suit, motivated by declines in other funding sources. In particular, reduced federal funding for redevelopment-related activities beginning in the 1970s, state-imposed caps on municipal property tax collections, and limits on other sources of city revenue have led local governments to adopt TIF.131

Target population

- Affordable housing created as part of redevelopment using TIF is targeted to low- and moderate-income renters and owners.
- TIF benefits the community generally by financing redevelopment that the community otherwise might not be able to pay for. Once the development is paid for, the incremental revenues can be used to fund affordable housing and meet other community needs such as roads and schools.

How the strategy is administered

- State authorizing legislation generally is required to implement tax increment financing. Legislation often allocates a certain percentage of the revenues for specific uses, such as affordable housing.
- Local redevelopment authorities can have significant roles in the administration of tax increment financing statutes, such as in California.

How the strategy is funded

Needed funding is limited to the cost of administration.

Extent of use of the strategy

Widely used: Forty-nine states and the District of Columbia have enacted statutes permitting the use of tax increment financing to help local governments finance redevelopment. Few states require funding to be set aside for affordable housing as part of their tax increment financing statutes, however.

Examples of locations where the strategy is being used

- In Utah, the Limited Purpose Local Government Entities – Community Development and Renewal Agencies Act authorizes local governments to use tax increment financing for redevelopment activities, including a minimum of 20 percent to affordable housing.
- California's redevelopment law requires local redevelopment agencies to set aside 20 percent of revenues from tax increment districts for a separate low- and moderate-income housing fund.
- Maine allows TIF districts to be established specifically for affordable housing.
- Chicago has over 100 TIFs.

Strategy results

- In Utah, approximately $127 million has become available to fund affordable housing under TIF legislation. Two of the major affordable housing efforts conducted using TIF include Bluffdale, a community near Salt Lake City where 85 affordable units have been constructed; and Sandy City, also near Salt Lake City, which is using TIF money for infrastructure support for housing development.[132]
- The TIF revenues placed into housing trust funds by California's redevelopment agencies a major source of funding for affordable housing in California. For example, in the 2004-2005 fiscal year, this funding amounted to more than $1.2 billion. This funding was used to help nearly 20,500 low- and moderate-income households obtain affordable housing.[133]
- In Maine, four affordable housing tax increment financing districts have been created since 2004. These districts will create over 200 units of affordable housing.

Pros and cons to using the strategy

Pros:

- Can provide a stream of funding for affordable housing development without an increase in municipal taxes.
- Developers can use the affordable housing TIF revenue to make a project feasible and rely less on the dwindling supply of traditional federal and state housing subsidies.
- Can improve communities, as revenue can be used for roads, schools, and other basic infrastructure needs in addition to affordable housing.
- TIF debt typically doesn't count against a municipality's debt limits.
- Individual TIF plans are generally controlled at the local level; they do not require state approval.

- TIF districts that have the greatest amount of the most vacant land before projects begin experience the greatest tax increment growth.

Cons:

- The high degree of competition for tax increment revenues can mean affordable housing is overlooked, unless legislation is passed designating a specific percentage of the revenues toward affordable housing.
- Redevelopment projects using TIF can lead to gentrification and displacement of low- and moderate-income households.
- Overuse of TIF, including districts that retain their designation as TIF districts for lengthy periods of time, can lead to higher than needed property taxes.
- TIF projections can be overly optimistic, leading to collecting insufficient revenue to pay debt service
- Investment in a TIF district almost always requires more municipal services such as police, fire, education, and transportation.
- TIF debt is more risky than general obligation debt and therefore commands a higher interest rate.

Sources of information about the strategy

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- Myerson, Deborah L., "Managing Gentrification," ULI Community Catalyst Report Number 5, Urban Land Institute, September 2006. www.uli.org/AM/Template.cfm?Section=Search&section=Policy_Papers2&template=/CM/ContentDisplay.cfm&ContentFileID=31295?
- "Affordable Housing Tax Increment Financing: Special Achievement," National Council of State Housing Agencies. Describes MaineHousing's affordable housing TIF districts. Available at: www.ncsha.org/uploads/06AW_ME_SA.pdf
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MAINE
TAX INCREMENT FINANCING

✓ Tax increment financing

Tax increment financing (TIF) is an innovative tool to fund community development, but one rarely used to support the production of affordable housing. The state of Maine has become one of the first places to do this.

As in many states, Maine has experienced uneven growth in housing prices and income. Between 2001 and 2005 home prices increased by 55 percent while incomes rose only 6 percent. The Maine State Housing Authority (MaineHousing) estimates a need for an additional 23,000 affordable rental housing units in the state to meet current demand. However, finding resources to meet the increasing need for affordable housing is difficult, especially with limited federal funding options and tightening state budgets.

In 2003, the state of Maine authorized tax increment financing districts, which are traditionally used for economic development projects, to be used to fund affordable housing. In doing so, the State sought to provide municipalities with a flexible tool to promote affordable housing in their communities while maintaining local control.

Maine's Affordable Housing Tax Increment Financing Program allows municipalities to capture new property tax revenue generated by the housing constructed in an identified Affordable Housing Tax Increment Financing (AHTIF) district and to use all or a portion of that revenue to support affordable housing. Communities may designate up to 2 percent of their land to each AHTIF district, for up to 5 percent of municipal land. They must then develop an associated Affordable Housing Development Program (AHDP) that establishes development plans for the districts given the projected tax increment revenues and other funding sources to cover project costs. Once approved by MaineHousing, any new property tax revenue a district generates can be used for up to 30 years.

The program also requires that a development be primarily residential and address an identified community housing need. In addition, at least one-third of project housing units must be affordable to households earning less than 120 percent of the area median income (AMI), with rental units remaining affordable for at least 30 years and homeownership units remaining affordable for at least 10 years.

TIF revenues may be used for housing-related costs within or outside of the AHTIF district. Within the district, eligible costs include capital costs, financing costs, project operating costs, professional service costs, administrative and start-up expenses, as well as the costs of recreational and child care facilities. Outside of the district, TIF revenues may pay for infrastructure and public safety improvements, mitigate adverse community impacts such as costs to local schools, or contribute to a fund for permanent housing development.

MaineHousing
Maine State Housing Authority

Since the program was implemented in 2004, MaineHousing has approved four affordable housing TIF districts. These districts are expected to generate 218 units of affordable housing, including 204 rental units and 14 single-family home units. The flexibility of the program allows municipalities to tailor projects to their needs, resulting in projects that range in size, purpose, and affordability.

Projects can serve lower-income households, such as a conversion project in the South Portland AHTIF district that will fill a subsidy gap in a federal Low Income Housing Tax Credit project by generating $14 million over 25 years in new property tax revenue. A smaller TIF project will help build a subdivision in Fairfield with 40 percent of the units limited to households earning 120 percent of AMI or less.

Maine's AHTIF program is often used in conjunction with other subsidy programs, allowing developers to deepen affordability levels or increase the percentage of affordable units within the project.

"It is unlikely that TIF alone would be enough to build a project."

-Julie Hashem

According to Julie Hashem, communications and planning manager at MaineHousing, "It is unlikely that TIF alone would be enough to build a project. But if a project needs just that little bit more [funding], TIF makes it feasible. The real benefit of AHTIF is that it's very flexible. It's natural to try to pair it with other types of financing."

With most of the projects still under development, the main impact of Maine's AHTIF program has been to introduce a reliable source of funding for developers interested in building affordable housing that does not require additional state or federal subsidies or an increase in state or local taxes.

Looking back on the first few years of implementation, Hashem advises those considering a tax increment financing program to keep program requirements as simple and straightforward as possible and to proactively work with municipalities as they develop their proposals. MaineHousing is currently working to revise their AHTIF program to simplify their annual reporting and application requirements so the structure of the program is clearer and easier for municipalities to use.

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Profit-Sharing

Strategy description

Developers using public assistance for a project, such as tax-increment financing or a housing trust fund, may enter into an agreement with the city to share a percentage of any profits earned on the project above an agreed-upon level. Profit-sharing arrangements are more likely to be used in mixed-use or mixed-income projects than in developments containing only affordable housing, which are unlikely to generate excess profits; however, developments receiving public assistance may be required to include affordable housing units. The profits returned to the city can be reinvested in future affordable housing projects or to meet other community needs.

Target population

Affordable housing included in developments with profit-sharing arrangements are targeted to low- and moderate-income renters.

How the strategy is administered

Typically, community development departments of towns and cities negotiate profit-sharing arrangements in conjunction with agreements to provide public funding for developments.

How the strategy is funded

Funding comes from the profits generated by a development.

Extent of use of the strategy

The strategy does not appear to be widely implemented for affordable housing.

Examples of locations where the strategy is being used

- Minnetonka, Minn. negotiated with a developer using TIF for a mixed-use redevelopment a requirement for sharing profits above a developer profit of 12 percent.
- Los Angeles, Calif. Community Redevelopment Agency has profit-sharing arrangements with some of the developers to which it lends.

Pros and cons to using the strategy

Pros:

- Income generated by the strategy can help to offset the cost of other affordable housing strategies or meet other community needs.

Cons:

- Could be a disincentive to developers.

Sources of information about the strategy

- City of Minnetonka, memo on Glen Lake Redevelopment Proposal and Tax Increment Financing Plan, December 1, 2005, available at: www.eminnetonka.com/news_events/projects/planning/glen_lake_redevelopment/eda_report_120605.pdf
- Chick, Laura, "Follow-Up Audit of the Community Redevelopment Agency," Los Angeles City Controller, September 28, 2006. Available at: www.lacity.org/ctr/audits/FollowupCRA.pdf

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General Obligation Bonds

Strategy description

In order to develop or help preserve housing for vulnerable populations such as the homeless and those in danger of becoming homeless, veterans, seniors, people with disabilities, first-time homebuyers, and low-income working families, states and cities across the country issue general obligation bonds. While the dollar amounts raised and specific uses of the money generated from the sale of the bonds may differ from place to place (examples include rental assistance, downpayment assistance, loans to private and nonprofit entities to rehabilitate housing developments), the process through which the bonds are bought and sold is similar. The debt service on general obligation bonds is paid from additional tax revenues. In the case of a locality, funds to repay the bonds typically are based on the property taxes assessed on all taxable property within the jurisdiction.

History of the strategy

States and localities (cities and counties) have been issuing general obligation bonds for many years. The funds are used for a range of activities such as infrastructure development and construction of schools and municipal buildings, as well as rental and ownership housing.

Target population

Bond proceeds can be used to support construction of rental housing for low- and moderate-income families, for rental assistance programs, for down-payment assistance programs for low-income or first time homebuyers, or to support development or preservation of housing for other vulnerable populations.

How the strategy is administered

Funds raised are often deposited in an affordable housing trust fund, where they are allocated for various uses including rental vouchers, housing production, homeless shelters, and others. Allocations of funds are often made on a competitive basis: those seeking grants submit applications for funding.

How the strategy is funded

The strategy is funded through the proceeds of the sale of bonds. The issuing entity repays the bonds over time using revenues from property taxes (in the case of a locality) or other sources of revenue.

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- At least 26 states, including, Connecticut, New York, Massachusetts, Arizona, Rhode Island, and California, have issued general obligation bonds for affordable housing.
- In 2006, Rhode Island voters passed a bond bill making $50 million available over four years. The Rhode Island Housing Resources Commission administers the funds, which in 2007 were used primarily for constructing affordable housing units.

Strategy results

- Voters in California passed Proposition 46, a $2.1 billion affordable housing bond issuance, in 2002. The funding was projected to assist more than 40,000 families achieve homeownership, create more than 40,000 new affordable rental units, and add 276,000 jobs to the economy.[134]
- Of the bond issuance approved in Rhode Island in 2006, the $10 million allocated in 2007 is expected to help produce 250 affordable units. Altogether, the $50 million is expected to leverage $450 million from other funding sources, helping to produce up to 2,000 affordable apartments and houses.[135]

Pros and cons to using the strategy

Pros:

- Creates a funding source for affordable housing projects.
- Use of funds is highly flexible and can address a range of affordable housing needs.

Cons:

- Creates an obligation for the state or locality to repay debt, which may result in tax increases.
- Requires the approval of voters in some states.

Sources of information about the strategy

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"Double Bottom Line" Private Equity Funds

Strategy description

Double bottom line private equity funds are equity funds that are designed to attract private investment for affordable housing, while providing acceptable rates of return for investors. Investors such as pension funds, insurance companies, banks, foundations and high-worth individuals invest in these private equity funds. While the investors typically receive a risk-adjusted market rate of return (they first bottom line) they forgo a higher potential return in exchange for the knowledge that they are producing positive social returns (the second bottom line). Social returns generally include economic development, social equity, and environmental impact. These equity funds invest in projects such as affordable housing, urban development, transit-oriented development, and job and wealth creating opportunities for low-income residents. State and local governments sometimes invest pension funds in such socially motivated funds.

History of the strategy

Double bottom line private equity funds started operating in the early part of the 2000s, primarily in California. Fund investments have since spread throughout the country, and by 2005 over $3 billion had been invested through these funds.

Target population

The immediate target population for double bottom line private equity funds consists of the investors in the funds. The ultimate beneficiaries are the residents of the communities in which the funds invest.

How the strategy is administered

Private investment firms that specialize in them administer double bottom line private equity funds.

How the strategy is funded

When the double bottom line private equity funds obtain the funds from their investors, they in turn invest the funds in a range of affordable housing, urban development, transit-oriented development, and job and wealth creating projects in the target communities.

Extent of use of the strategy

The strategy is now widely used across the country.

Examples of locations where the strategy is being used

The strategy was first used in California in the early part of this decade. Since then funds have been investing in communities across the country including Maine, Massachusetts, New York, Florida, Missouri, and Oregon.

Strategy results

Within the past five years alone, more than $3 billion has been invested by double bottom line private equity funds in projects across the country.

Pros and cons to using the strategy

Pros:

- Brings additional private sector funding into the affordable housing and community development sector.
- Private equity investors are motivated to identify the public projects most likely to produce positive results, minimizing the changes of "wasting" public (or private) investment funds.

Cons

- Requires experienced Fund managers who can attract investors and manage the Fund to ensure that both bottom lines are met.
- Affordable housing projects with little chance of an economic return are unlikely to attract funding from double bottom line funds. Projects for the lowest-income households, requiring the largest subsidies, are unlikely to be the target of investments.

Sources of information about the strategy

- Daniels, Belden Hull, "Double Bottom Line Funds: Successful Private Equity Funds to Revitalize Low Income Neighborhoods," Economic Innovation International, Inc. Presentation given at 2005 MetroBusinessNet Annual Convening, Miami, FL, February 17-18, 2005. Available at: www.futureworks-web.com/pdf/mbn/Successful%20Private%20Equity%20Funds.ppt#474,1, Double Bottom Line Funds: Successful Private Equity Funds to Revitalize Low Income Neighborhoods
- Governor's Commission on Housing Policy, Final Report 2004. "Innovative Housing and Community Revitalization in Maryland: Solutions for a Positive Change."

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San Diego Capital Collaborative
Double Bottom-Line Private Equity Fund

- ✓ Double bottom-line private equity fund
- ✓ Creative public-private collaborations
- ✓ For profit-nonprofit partnerships
- ✓ Tax increment financing
- ✓ Infill development

San Diego has found establishing a double bottom-line private equity fund to be a complex process, but as a financial tool that can make millions of dollars in capital available for affordable and workforce housing, one worth taking the time to understand.

The San Diego Capital Collaborative is a non-profit organization chartered by the San Diego City-County Reinvestment Task Force, which secured $200,000 from banks to study how an equity fund for affordable housing in the county could be created. The primary purpose of the Collaborative is to initiate and administer private equity funds.

"The idea behind creating the San Diego Capital Collaborative was to facilitate private investment of capital in low- and moderate-income communities," said Barry Schultz, chief executive officer of the Collaborative. Although the Collaborative's primary focus is more on community revitalization than creating housing, the organization's efforts will result in hundreds of new units of workforce housing.

The Collaborative raised $90 million in 2005 for its first private equity fund, the San Diego Smart Growth Fund. Investors included the California Public Employees Retirement System (CalPERS), Washington Mutual, and Northwestern Mutual Life Insurance. The San Diego Smart Growth Fund is the first of a "family of funds" that the Collaborative intends to launch.

In general, a private equity fund raises capital from investors, invests the capital in profit-making ventures, and earns a return on its investment. Funds are established for a period of time, often seven years. The capital raised is invested within the first two to three years of the life of the fund, and money is returned to investors by the end of the seventh year.

The San Diego Smart Growth Fund is different from other private equity funds in only one respect, according to Schultz, and that is its mission of social responsibility. To achieve this mission, the fund targets its investments to underserved communities.

Although the Fund is intended to earn market rates of return, "All investment is evaluated based on social criteria," said Schultz. These criteria include creating workforce housing (housing affordable to households earning from 80 to 150 percent of the area median income), increasing homeownership in the targeted communities, creating jobs, and creating opportunities for entrepreneurship.

> ***"All investment is evaluated based on social criteria."***
>
> -Barry Schultz

The Fund, which is managed by Phoenix Realty Group, LLC, invests in projects primarily by private-sector, for-profit developers. Schultz says developers can get financing to fund 75 percent of the cost of the project, but need equity to cover the remaining 25 percent. The Fund's investment in the project provides most of the equity requirement (about 90 percent); the developer's own capital provides the rest.

Schultz stresses that the Fund's investments don't come with onerous restrictions. All aspects of the social goals of the project are voluntary. "We work with the developer to identify some goals – we do a project enhancement plan – and develop a strategy to meet the goals and then we bring the resources to the table to meet the goals," he said.

For example, in a project with inclusionary housing requirements, the Collaborative encourages the developer to build the affordable units on site rather than paying an in-lieu contribution, and works with the developer to make that financially feasible.

The San Diego Smart Growth Fund fills a void in low- and moderate-income communities, where Schultz says traditional forms of capital are often not available. "There are perceptions that these communities are not a good investment," said Schultz. The communities lack a track record, or comparable forms of new development that can be used by a traditional lender to appraise the project. "From an investor standpoint, they perceive them to be high risk," he said.

"Truthfully, there are challenges that exist in these communities," said Schultz. The Collaborative tries to address these challenges by working with stakeholders to improve the environment. For example, the Collaborative may help develop a community revitalization strategy that will create amenities buyers of workforce housing want, such as access to shopping and employment.

Because the Fund's investments are in distressed communities, projects blend the Fund's market-rate capital with some public funds, typically tax increment financing revenues, to achieve the social goals of the project. Schultz said the Collaborative is also working to find ways to use federal Community Development Block Grant (CDBG) funding in the projects. In addition, the Collaborative is working to raise below-market rate funds from foundations.

The Collaborative focuses on workforce housing because it sees a void in this segment of the market. "From our standpoint, if [a community] needs affordable housing, they have LIHTC. The market takes care of the higher end, what's missing is the middle."

To date, the Fund has invested $30 million of its $90 million in capital. The first project is a 75-unit condominium near San Diego State University. Condos will range from one to three bedrooms and for an average price of $400,000. The development, which replaces a vacant, dilapidated hotel, will also include 3,000 square feet of retail space.

The Fund recently invested in a similar mixed-use project that will include townhomes. Schultz is working to encourage employers to participate in the project using an employer-assisted housing strategy. "We're talking with educational and medical institutions about buying some of these units," he said. He noted that large local employers are having difficulty attracting and retaining professionals because of the high cost of the area's housing.

The third project is an office condo development in Chula Vista, which Shultz said he hopes will help small businesses to develop, creating wealth in the community. “There’s been a lot of residential, not commercial, development in that area,” he said, “so we’re bringing jobs to where people are.” The commercial development also helps to balance the Smart Growth Fund’s investments in residential projects.

Schultz advises other communities considering launching a private equity fund: “You have to be very clear on the ultimate goal.” He said a focus on investment to promote community revitalization is more complicated than funds with an ultimate goal of simply creating workforce housing units. “Ours is a more complicated process,” he said. “You have to establish relationships with stakeholders and you have to get buy-in.”

According to Schultz, the right market conditions are important for a community revitalization strategy to work. “The reason it will be successful here is there is a convergence of trends,” Schultz said. He noted that San Diego is largely built out, and developers realize they have to do urban projects rather than the greenfield development they are more accustomed to.

“We have people around the table looking for solutions as opposed to being dragged in,” he said. “It’s a whole different game,” Schultz said. “We bring the money and the expertise.”

Schultz stresses that the process is complicated and requires careful relationship building. “It’s taken the cooperation of everyone – that’s why we’re the Collaborative,” he said.

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Use of Housing Finance Agency Reserves for Affordable Housing

Strategy description

State housing finance agencies generally support their jurisdiction's goals for developing affordable housing through their administration of the Low Income Housing Tax Credit, and through issuance of bonds that generate funds for affordable housing. The housing finance agencies generate revenues through fees they charge on outstanding bonds, as well as from the spreads between their cost of funds and the rates they charge borrowers. These revenues are used to build reserves as well as to support ongoing program operations.

State and local efforts to support affordable housing can ensure that a portion of housing finance agency reserves greater than the required minimum be used for purposes related to affordable housing. For example, 13 state housing finance agencies that reported in 2004 that some of their reserves were used by the state for activities unrelated to housing.[136]

Target population

The beneficiaries are the low-income residents who benefit from the additional affordable housing generated.

How the strategy is administered

The funds are co-mingled with other sources to preserve existing affordable units and develop additional units.

How the strategy is funded

The strategy uses reserves from housing finance agencies

Extent of use of the strategy

Widely used.

Examples of locations where the strategy is being used

- New York City (see below)
- The California Housing Finance Agency lends some of its earnings and reserves for affordable housing development in addition to lending bond funds.

Strategy results

As part of New York City's 10 year, $7.5 billion plan to preserve 73,000 affordable units, and develop an additional 92,000 affordable units, the City is tapping into a range of resources, including $540 million in reserves from the New York City Housing Development Corporation, a City housing finance agency.[137]

Pros and cons to using the strategy

Pros:

- This strategy can be effective in a market with a large, active housing finance agency that generates significant reserves.

Cons:

- The strategy cannot be used where reserves are low.
- Limiting reserves for other uses may ultimately either increase taxes or constrain government spending for other purposes.

Sources of information about the strategy

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Live Near Your Work Programs

Strategy description

The cost of transportation is a significant factor in the total cost of living that often places a considerable burden on homeowners or renters of affordable housing. Therefore, transportation should be considered when making decisions on location and financing for affordable housing. State-sponsored "Live-near-your-work" programs encourage renters and homeowners to reduce their transportation costs by living near their place of employment. They may help to improve targeted neighborhoods as well. The programs offer financial incentives, including tax breaks, grants, loans, and downpayment and closing cost assistance for people who qualify.

Target population

The target population for this strategy is home purchasers in the target communities.

How the strategy is administered

Live near your work programs can be implemented in a number of ways. The location-efficient mortgage developed by the Center for Neighborhood Technology and Fannie Mae considers household savings in transportation costs associated with living near public transit in calculating housing affordability, enabling potential homebuyers to qualify for higher mortgages, making more housing affordable.[138]

Programs in Maryland, Chicago and Arlington, VA encourage employees of local businesses and institutions to buy homes near their workplace by providing loans to homebuyers that become forgivable if the homeowner lives in the home for a minimum length of time.

How the strategy is funded

In several locations, the strategy is funded by a combination of state funds and matching funds provided by participating employers. In others the funds are provided entirely by the participating employers.

Extent of use of the strategy

Live near work programs are used in a wide range of communities across the country.

Examples of locations where the strategy is being used

- As noted above, examples of locations that have implemented live near work programs include Maryland, Chicago and Arlington, VA.
- The State of Illinois awards "Live Near Work" points in the Low Income Housing Tax Credit application process for projects with employers within five miles (for non-rural

projects) or 10 miles (for rural projects) with difficulty attracting a qualified workforce due to the lack of affordable housing.

- The City of Baltimore's Live Near Your Work Program is a partnership between employers and the City of Baltimore. The program provides a minimum $2,000 grant or conditional grant to employees for settlement and closing costs to purchase homes in targeted neighborhoods near their employers. Baltimore City contributes $1,000 per employee, which is matched by the participating employer.

Strategy results

In the Chicago program, more than 600 employees have received assistance to buy homes closer to work through the Metropolitan Planning Council's EAH initiative. The program, which started in 2000, had more than 60 participating employers by 2005. In 2005 alone, regional employers invested more than $1.3 million to help their workers purchase homes.

Pros and cons to using the strategy

Pros:

- Live near work strategies promote multiple goals with a single program (environmental, affordable housing, and neighborhood stabilization).

Cons:

- Some live near work programs use public resources for people who do not necessarily have low or moderate incomes.

Sources of information about the strategy

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- Arlington, Virginia Community Planning, Housing and Development Live Near York Work website, www.arlingtonva.us/Departments/CPHD/housing/housing_info/CPHDHousingHousing_infoLNYW.aspx
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BALTIMORE, MARYLAND
LIVE NEAR YOUR WORK

✓ Employer-assisted housing
✓ Live near your work

Once a declining city, Baltimore is in the midst of a transformation that includes a rising population, substantial investment in infrastructure, and strong overall community-building efforts that have once again made it an attractive place to live and work. One significant driving force to this change has been the city's strategies that promote employer-assisted housing.

One of the city's most successful strategies has been its Live Near Your Work (LNYW) program. LNYW is designed to promote private sector participation in meeting the housing needs of employees. LNYW also attempts to reduce commuting burdens and city congestion, and revitalize communities by providing incentives for participants to live near their place of work.

The LNYW program is a partnership between the City of Baltimore and participating employers, which together provide a minimum $2,000 forgivable or conditional grant to employees toward a first-time purchase of a home within the Baltimore city limits. The city provides a maximum grant of $1,000 in cash, which the employer must at least match.[139] The city currently has an annual $100,000 cap on funding for the program, which, according to Debra Braxton of the City of Baltimore's Home Ownership Institute, is often depleted by the end of each fiscal year.

As an additional bonus, LNYW has partnered with the local transit authority in offering participating employees a free one-time, one-month Maryland Transit Authority pass, which can be used for any of the city's public transportation services.

The city's grant is provided with no income restrictions, and it is rare for employers to impose one. Currently only two of the nearly 85 participating employers include income restrictions. The property may be located anywhere in the city of Baltimore, and the employer must have a minimum of five employees participating at any

Buying into Baltimore

given time to be eligible. Once the employer's human resources department deems the employee eligible, the application, along with the lending institution's home loan documentation are passed off to the city for final approval. The city requires that the paperwork be submitted at least 15 days prior to sale closure to allow for any problems to be resolved. Braxton notes that including such a cushion period is crucial, as setbacks and other snafus will inevitably occur during the application and approval process.

LNYW was first initiated in 1998 as partnership between the state, employers, and various county and city jurisdictions, including Baltimore. At the time, employees received a total of at least $3,000 in funding, $1,000 each from the state and local municipality, and an additional $1,000 or more from the employer. The state's funding was depleted by 2002, and all programs except that of Baltimore were phased out soon thereafter.

One significant change the city made in 2002 was to expand the area of eligible homes for purchase from a five-mile radius of the employee's workplace to encompass the entire City of Baltimore.

"I have employers practically begging me for applications."

-Debra Braxton

Since the program began in 1998, over 1600 employees have received funding assistance statewide. Annually, Baltimore's LNYW program supports from between 150-200 employees from a wide variety of employers, including Johns Hopkins, Catholic Charities, the Annie E. Casey Foundation, and many others. Braxton says that with each passing year, the program's popularity seems to grow. "I have employers practically begging me for applications."

Braxton has had to decline applications from a number of organizations because they did not have at least five employees, which is the minimum required for participation. Braxton attributes the success of the program to the fact that for many people, a small grant can make the difference in "pushing them over the top" to afford homeownership.

A similar version of the LNYW program that the city uses for its own employees is the Baltimore City Employee Homeownership Program. The city annually assists nearly 190 employees through this program. Eligible employees must be full-time, and employed for a minimum of six months. City employees are offered a $3,000 forgivable loan, provided they maintain ownership of the same property over a five-year period. The loan is reduced by 20 percent ($750) for each year of occupancy. There is no income requirement, and the property may be purchased anywhere within the Baltimore City limits, with the exception of 26 restricted high-end neighborhoods.

Through an extension program called the Healthy Neighborhood Initiative, the city offers an additional $750 grant to employees who purchase properties in targeted neighborhoods.

In order to further promote homeownership within Baltimore, the city offers the Trolley Tours program, which can be used in conjunction with either LNYW or the Baltimore City Employee Homeownership Program. The first 50 participants who take a trolley tour of one of two neighborhoods in Baltimore (one in East Baltimore, one in West Baltimore) are eligible for a $3,000 forgivable five-year loan for downpayment or closing costs for the purchase of a home in any designated area of Baltimore City. Tours are offered twice a year – once in the fall and once in the spring. There are no income restrictions to qualify; however, the buyer must execute a sales contract within 90 days of the tour and contribute at least $1,000 toward the purchase of the home.

The program is administered through a partnership between the City of Baltimore, and Live Baltimore Home Center. Braxton notes that the program was intended to encourage people to "step outside their norm," and expose themselves to a part of the city they likely otherwise would not venture into. She said the tour also attracts residents of Washington D.C. and other areas outside the city limits.

The city's programs are often used in combination with the federally funded American Dream Downpayment Initiative (ADDI). ADDI offers low-income homebuyers assistance of $10,000 or 6 percent of the purchase price of a home – whichever is greater. "For individuals and families who don't meet the median income, this is a blessing," Braxton said.

Braxton says that these programs have achieved significant success in a number of areas. The combination of outreach and direct financial assistance has led to an increase in homeownership throughout Baltimore, particularly for moderate-income populations for whom combined grants of $10,000, $3,000, or even $2,000 in aid can make a big difference. Additionally, the employer-assisted housing programs have generated strong public-private relationships between employers and city agencies, and have aided employers' ability to recruit and retain employees.

As an additional benefit, Braxton reports that one impact of the employer-assisted housing programs is reduced traffic and congestion in the city and hence commuting time for local employees. She says public transportation is being used more frequently, and the streets are often more crowded with walking commuters.

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