



Establishing a Local Housing Trust Fund

A Guide for California Officials

A safe, affordable home is the cornerstone of the California dream. Providing a full range of housing choices is one of the most fundamental elements of a vibrant and livable community. Unfortunately, the dream is out of economic reach for far too many families in California.

The local housing trust fund is a helpful tool communities can use to make affordable housing a reality for their residents. It provides local officials with a vehicle to coordinate a complex array of state and federal programs to fashion a housing strategy that is tailored to the community's unique needs, conditions, and political culture.

The purpose of this guide is to increase the understanding of the role that housing trust funds can play in addressing a community's housing needs. The guide offers local officials information and resources they can use to design or institute a housing trust fund that is best suited to their community's character and circumstances.

Because housing trust funds are created, administered, and operated locally, local officials can use them to reinforce a wide range of community goals:

- Some programs give people a leg up on the economic ladder by helping them become homeowners and build equity.
- Programs can also give people with physical or developmental disabilities the opportunity to live more independently and participate more extensively in community life.
- Housing trust funds can help make sure that the people who teach in the classrooms, respond to emergencies, or police the streets aren't priced out of the market and have a chance to live in and be even more a part of the communities they serve.

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What is a Housing Trust Fund?

Increasingly, local communities are creating housing trust funds as a means to find local solutions to California's affordable housing crisis. But what is a housing trust fund? They are dedicated funds that are held *in trust* to be used to provide affordable housing. The agencies that administer them can take many forms, such as a local housing department, a multi-city agency, or a private nonprofit organization.

Local housing trust funds share three common features:

1. They receive *ongoing revenues*, usually from dedicated sources, and are not dependent exclusively on annual appropriations.
2. Funds are *designated to support affordable housing* rather than other community needs.
3. Finally, they include sources of funding *in addition to* those that are otherwise restricted or available to support housing.

One of the principal advantages of local housing trust funds is a regular and predictable stream of relatively flexible revenues. Funds can be used to address priority needs or fill gaps not covered by other housing programs with more rigid rules or requirements. Having a dedicated source of revenue that comes in to the trust fund automatically (such as commercial linkage fees or a portion of the transient occupancy or "hotel" tax) means that funds for housing need not compete with other priorities when it comes time to approve the annual budget. These features allow local agencies to plan ahead and make investments with some confidence that the needed funding will be available in future years.

Some of the most common forms of dedicated revenues agencies use for local housing trust funds in California include:

- **Dedicated Housing Fees.** Many jurisdictions have established commercial linkage fees or housing impact fees on commercial or residential development projects that generate new jobs. The fees are used to support the development of housing affordable to employees living in or attracted to the community. *Condominium conversion fees* for converting rental units to ownership are another example.

In addition, a large number of jurisdictions have adopted inclusionary housing programs that require new developments meeting certain criteria to provide a percentage of affordable housing as a condition of development. These programs generally allow in-lieu fees to be paid as an alternative to direct construction of the required housing.

In each case, the funds generated by the fees must be devoted to affordable housing purposes and are usually deposited in a local housing trust fund or similar affordable housing account.

- **Redevelopment Tax Increment Set-Aside Funds.** California law authorizes cities and counties to establish redevelopment areas to combat blight. The redevelopment agency receives the additional property taxes that result from the increased value as the area improves over time – known as the tax increment – to fund redevelopment activities.

Redevelopment agencies must set aside a minimum of 20 percent of the tax increment to support the provision of affordable housing.¹ Some agencies are required to set aside higher percentages. Others may voluntarily contribute tax increment revenues above the minimum to support affordable housing. Typically, a local housing authority or redevelopment agency administers these funds. There are 414 redevelopment agencies in California, which received \$6.2 billion in total revenues in the 2002-2003 fiscal year to use for housing and other redevelopment purposes.²

- **Discretionary Local Revenues.** In some cases, local jurisdictions contribute directly to the housing trust fund from discretionary local revenues. These can include general fund appropriations or a designated portion of existing local revenue sources, such as a share of the local sales tax or transient occupancy tax.
- **Grant and Charitable Contribution Funds.** Some funds accept grants, charitable contributions, or other non-recurring sources of funding that are dedicated to affordable housing. These can include revenues from capital campaigns organized by private sector organizations or ongoing contributions by major employers. These housing trust funds may be operated by a single jurisdiction, a consortium of several local agencies, or even an independent nonprofit agency.
- **Loan Repayments and Commercial Development Loans.** Often housing trust funds lend money to private or nonprofit developers for affordable housing projects. Loan repayments are then used to create a revolving fund that allows the trust fund to make additional investments. Housing trust funds can also be used to convey bank commercial development loans, such as investments made to receive credits under the Community Reinvestment Act (CRA). (See text box on page 7 for more information on the Community Reinvestment Act.)
- **State-Funded Local Housing Trust Funds.** Previously, local housing trust funds could receive state funding through Proposition 46, the affordable housing bond enacted in 2002.³ However, the state funds from Proposition 46 have been fully subscribed. Proposition 1C, the state housing bond that was enacted in November 2006, does not include a program to support local housing trust funds.

What Do Housing Trust Funds Do?

There are a wide variety of functions that housing trust funds perform and options for programs they can support, depending on:

- The focus and capacity of the agency,
- Any restrictions on the source funds, and
- The amount of money in the fund.

Unlike most state and federal housing programs, local housing trust funds have fewer predetermined conditions restricting their use. Listed below are some of the most typical examples of the uses housing trust funds support and the types of assistance they provide.

Provide Direct Financing and Leverage Other Funds. Housing trust fund dollars can be used to make loans or grants to fill the shortfall (or “gap”) in financing needed to make projects work. Some trust funds offer funding up front, enabling the project sponsors to seek additional funding from other sources. Others fill in with needed funding when all other sources have been secured. Another option is to provide loan guarantees to other funders.

Trust funds sometimes use their resources as a local match to secure other sources of funding, such as state bond funds or housing tax credits. This larger pool of funding is then used by the trust fund to support individual affordable housing projects.

Reduce the Cost of Borrowing. Housing trust funds can make low-interest loans to both developers and first-time homebuyers. Low-interest developer financing can help reduce the cost of debt and make the initial financial planning for an affordable housing project “pencil out.” In the case of first time homebuyers, small loans can be made for down payment assistance or to cover closing costs. This up-front cash often makes the difference between purchasing a home and renting for many moderate-income families.

Build Capacity. Housing trust funds can be used to increase the ability of local nonprofit (or even for-profit) developers to overcome the difficulties of providing housing to the lowest income households. Developers often find it challenging to put projects together that require that they navigate a complex maze of financial assistance, or incorporate services for people with special needs. Many housing trust fund agencies provide advice and assistance to developers engaged in these kinds of projects. In addition, housing trust fund resources are sometimes used to add staff, hire consultants or offset other administrative and program costs for organizations that are working to increase the housing opportunities within the community.

Preserve and Maintain Affordable Housing. Some trust funds set aside resources to assist low-income homeowners to maintain and repair their homes to preserve the supply of affordable housing in the community. As affordability covenants for rental housing under the federal Section 8 program expire, trust funds may also step in to help nonprofit

housing organizations purchase rental properties that go on the market, to keep them affordable over the long term. (See the text box below for more information on Section 8 and other federal housing programs.)

Provide Long-Term Rental Assistance and Prevent Foreclosures. Another program that housing trust funds can offer is long-term financial assistance to renters. Through rental assistance programs, the fund provides a financial subsidy to the family renting the unit rather than the developer who built the unit. This can help keep housing affordable in the community and avoid neighborhood gentrification over the long term, even as rents rise. Housing trust funds can also assist low-income homeowners to prevent foreclosure on their mortgages when they have financial difficulties.

Partner with Service Providers. Sometimes, the elderly, migrant farm workers, homeless people, single parent families, and other groups have special needs. In a few cases, local trust funds have partnered with social service programs to help address these needs – such as transportation, counseling, substance abuse treatment, in-home medical assistance, or security – thereby addressing underlying issues that contribute to the need for housing.

Key Federal Housing and Community Development Programs

The *Section 8* program provides housing vouchers to assist very low-income families, the elderly, and the disabled to afford housing in the private market. Housing choice vouchers are administered locally by public housing agencies (PHAs.) A housing subsidy is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

The *Community Development Block Grant* (CDBG) program provides federal grants directly to larger urban cities and counties for activities that benefit low- and moderate-income individuals, eliminate blight, or address a serious and immediate threat to public health and welfare. States distribute CDBG funds to smaller cities and towns. Grant amounts are determined by a formula based upon need.

The *HOME Investment Partnerships* (HOME) program provides formula grants to States and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.⁴

Benefits of a Housing Trust Fund

The power of a housing trust fund resides in the ongoing investments that local agencies can make to address the affordable housing problem in their community, the ability to leverage other funds for housing, its flexibility, and the boost it can give to the local economy.

- **Consistency:** A dedicated revenue stream creates a regular (but possibly fluctuating) source of funds to invest in housing that is not put at risk during the budget process. Some trust funds pull from multiple sources, which can yield more money, diversify cash flows, and better spread costs among different sectors of the community.
- **Leverage:** Housing trust funds can be used to attract—or leverage—additional private and public money to affordable housing projects. The Center for Community Change estimates that local housing trust funds leverage as much as \$7.50 from private, nonprofit, and other governmental sources to support housing development for every \$1 spent from the trust fund.⁵
- **Flexibility:** Flexibility allows local agencies to focus their housing trust fund to meet the highest priority local needs, whether it is transitional housing for the homeless, homeownership opportunities for residents with moderate incomes, or permanent housing for very low-income families.
- **Economic Multiplier:** Housing trust funds can have a significant impact on the local economy. For example, Sacramento’s Housing Trust Fund generates \$10 in additional economic activity for every \$1 spent by the fund. A dollar spent by the housing trust fund to develop affordable housing is estimated to generate \$7 in construction-related expenditures, including \$4 in wages and \$1 in fees for Sacramento County. In addition, each project returns an average of \$227,000 to the economy each year in taxes.⁶

Getting Started

The effort to establish a housing trust fund usually begins by answering three key questions:

1. Is there a need (and the will) to address a shortage of affordable housing?
2. Is there a source of funding that can be dedicated to that purpose?
3. Is there an appropriate local agency capable of initiating and administering the housing trust fund?

Establishing the need for affordable housing and the appropriate local agency takes research and discussion, while determining the best funding sources is typically a difficult fiscal and political question. Listed below are some of the key research steps involved in assessing whether and how to establish a local housing trust fund.⁷

Determining Need

Quantifying the housing need for various income categories is an essential starting point. Most cities and counties do this as part of the regular update of the Housing Element of their general plan, using their share of the regional housing need as determined by the regional planning agency. The number developed will help determine the adequacy of specific funding sources and how persuasive the case is for establishing the trust fund.

Being specific about the unmet need for housing is also important to help provide an adequate legal foundation for any fees or other requirements that may be imposed in conjunction with the program.

Inadequate wages, high living costs, and the shortfall of affordable housing have made it very difficult for low-income, working and middle-class families to purchase homes or find quality rentals at a price they can afford. This is particularly the case in California, which according to the National Low Income Housing Coalition, ranks as the least affordable state in the nation in terms of the cost of housing.⁸

One way to start is to estimate the number of housing units required to serve the unmet needs of the target population and determine the per-unit cost of additional financial support needed to provide them. The result is often shocking.

For example, a large community may need 2,000 units of affordable housing with a gap of \$50,000 each between what the target populations can afford and what it costs to provide the housing. The total unmet need would therefore be \$100,000,000.

Because of a trust fund's power to leverage other funds, however, this figure can often be divided by a factor of five to ten, depending on the availability of other funds.

An alternative approach is to estimate how much money local housing providers need to fund the projects they have the capacity to complete. A third useful figure can be derived from the funding applications received by other programs, such as the federal HOME Investment Partnership program (HOME) or the Community Development Block Grant (CDBG) program. A good estimate of need will be what was not funded through these programs. (See text box on page 7 for more information on these federal programs.)

Setting Priorities and Identifying Funding Sources

A housing trust fund will not solve the entire problem. Set a realistic annual revenue goal based on local priorities. The initial objective is to develop a reasonable (as opposed to precise) figure upon which to build a housing trust fund program. In most instances, the housing needs will far exceed the revenues that are likely to be generated. But the figure developed for the annual revenue goal does provide a baseline for setting priorities for the use of limited funds.

Develop search guidelines and criteria for selecting funding sources. The criteria might include examining sources that are related to activities (like new development or employment growth) that create the need for additional affordable housing, sources that can generate significant amounts of new funding, funds that can be efficiently collected, or funding sources that do not unfairly burden a specific sector or group.

Develop a possibilities list. Brainstorm, study other programs, and list new ideas for funding sources. (Information on other programs and potential revenue sources is included in the resources section on page 28.) Some of the best possibilities will need more study as the process progresses. Try to find new or increased revenue sources rather than seeking revenue from an agency or fund already accustomed to receiving that revenue.

Consider alternatives for a given revenue source. For example, instead of increasing a tax, dedicate the amount of revenue in excess of what was collected in a base year to the trust fund, leaving the base amount intact for the original purpose.

Once you've brainstormed, identify the best possibilities. Complete the research on the most probable sources by determining how well they fit the fiscal and political situation in your community.

Evaluating Potential Revenue Sources

Amount needed. What is the funding target initially and on an ongoing basis? Will the total revenue that can be realistically generated achieve the program goals? If the goal is to generate \$5 million per year and the source will only produce \$1.5 million, there is more work to do.

Is a new tax or fee required? Although local funding sources in California are constrained by a complex web of state laws and constitutional provisions, housing trust funds have often been successfully funded through an entirely new tax or fee, particularly real-estate related sources such as commercial development linkage fees or in-lieu fees from inclusionary housing programs.

Reliability. How stable are the revenue streams? How reliable are they? Fees based on development will often fluctuate from year to year based on the pace of construction. Federal programs have been cut back significantly in recent years. Grants and loans from state housing programs such as Proposition 46 can run out before new funding is secured through additional bonds or appropriations.

Who collects the revenue and what requirements apply? Is it collected at the local level, but allocated according to state law, as property taxes are in California? Are there options for increasing the tax or fee at the local level? Is there a cap on how much this tax or fee can be increased? What is required to increase the tax or fee? Does an increase require a majority or super-majority vote of elected officials? Does it require a vote by the public or property owners? Is it subject to the protest provisions under Proposition 218? Must it be approved at the state level? These discussions should involve the agency's legal counsel.

Where do the revenues from this source go now? Are they committed to a specific purpose? Do they go to the general fund? Pre-committed funds are usually more difficult to secure. It is sometimes wiser to seek an uncommitted source of revenue—either by increasing an existing source or by identifying funds that are not currently dedicated elsewhere. For example, some California communities set aside more than the required 20 percent of their redevelopment tax increment revenues for affordable housing, directing the additional revenues to a local housing trust fund.

Fairness. Who will pay the tax or fee? Is the revenue source progressive or regressive? In California, many trust fund revenue sources derive from the process of developing real estate and are passed on to developers, property tax payers or homebuyers. Only those individuals who purchase particular goods or services pay some charges, such as transient occupancy taxes. Others, such as state or local general obligation bonds, are paid by the taxpayers-at-large.

Adoption process. How much staff time and other resources will be needed to develop and secure approval of the funding mechanism? What are the steps necessary to adopt the mechanism? Measures that require voter-approval are more challenging and may be harder to implement. Keep in mind as well that public resources may not be used for voter advocacy.

Developing the Proposal and Generating Support

One approach is to retain a consultant to engage in the analysis of options and develop the proposal to create a housing trust fund. This can be helpful to provide a comprehensive set of potential revenue sources that other housing trust funds use, an analysis of legal and political hurdles, and the steps necessary to establish and provide revenues to a housing trust fund.

Another approach is to create a representative task force that includes people knowledgeable about development, affordable housing needs, public agency budgets, and housing finance. The group can then determine the need, scope and funding possibilities for the housing trust fund. A combined approach is also a possibility. A representative task force can be established to work in tandem with a consultant.

A process that features a task force or group of stakeholders is also useful in dealing with what may be the ultimate hurdle: community skepticism. Broad political support is usually essential in order for a community to create a housing trust fund. Community groups and task forces help generate political support and are often viewed by the general public as “non-political.”

If a task force that includes a cross-section of the community puts its weight (and connections) behind a specific proposal, there is a greater likelihood the broader community will support it as well. When important stakeholders are left out of the process, the prospects for success diminish.

Selecting the Right Agency to Administer the Trust Fund

The vast majority of housing trust funds are managed directly by the local city or county creating the trust. The fund is typically housed in the local agency or department with the most experience operating other housing programs. Examples include offices that administer federal programs such as the HOME Investments Partnership program or the Community Development Block Grant (CDBG) program, each of which provides block grants to states and localities.

Other options include a separate public body such as a housing authority or redevelopment agency. This model often includes an oversight body. When private funds are a primary source of funding, a nongovernmental nonprofit organization with an independent board of directors may administer the housing trust fund, rather than a city or county agency.

Often there is little choice as to who will administer the fund because of established policies and practices within the local jurisdiction. But if your situation allows for choice, your best option might be an agency that:

- Has experience operating a program that grants or lends funds to housing developers.
- Has worked with and respects nonprofit development organizations and other housing organizations in your community.
- Understands and is committed to providing housing for your target population.
- Can entertain and support innovative ways to provide decent, affordable housing.
- Can work well with all the partners and industries involved in housing, including the federal Department of Housing and Urban Development, other agencies, financial institutions, and developers.
- Is committed to addressing urgent housing needs and demonstrates a willingness and ability to search for solutions.⁹

Designing the Housing Trust Fund Program

A number of key issues must be addressed in designing a specific housing trust fund program.¹⁰

Who Should the Trust Fund Serve?

First, what target population will the trust fund aim to serve with its programs? The answer to this question will flow from the housing needs assessment done earlier, how well the housing needs of various groups are currently being met by other funding sources, the social and political climate of community opinion regarding the most pressing needs, and any potential restrictions or conditions related to the revenue sources selected for the trust fund.

For example, a housing trust fund could focus on serving homeless and very low-income people who find it most difficult to find housing. Or it might concentrate on providing affordable housing for moderate income workers – often called “workforce housing” – to boost the economic competitiveness of the community in attracting employers and a skilled labor pool.

It could also be geared to provide more affordable housing in particular neighborhoods. For instance, some housing trust funds are used to complement the investment of redevelopment funds to revitalize “blighted” neighborhoods. Others may promote a broader distribution of affordable housing throughout the community in order to advance greater social and economic integration. Housing trust funds are also sometimes used to increase the supply of affordable housing downtown, as part of efforts to bring new life to older central business districts.

The trust fund could also be designed to meet the special needs of particular populations. Senior housing is a common focus. Some housing trust funds help young families become first-time homebuyers. Other special-needs populations that housing trust funds have worked to serve include providing housing and support services for developmentally disabled adults, transitional housing for victims of domestic violence, and farmworker housing in agricultural communities.

If the housing trust fund is designed to serve special-needs populations, housing-related services such as day care, counseling, transportation, educational or recreational activities, or medical care may be needed. In areas lacking strong nonprofit partners, the housing trust may want to offer programs to build the capacity of the nonprofit sector through predevelopment funding, technical assistance in preparing applications, training for nonprofit providers, organizational support, and other assistance.

Questions to Consider in Designing a Housing Trust Fund

- **What needs are most critical or are not being met by other programs?**
For example, the trust fund may be geared to serve extremely low-income households, the elderly, migrant farm workers, families transitioning from welfare to work, the homeless, or special needs populations. Providing housing for people with very low incomes requires one kind of assistance. Enabling moderate-income households to purchase their first home often requires something else. Serving the homeless or special populations may involve providing a range of services along with housing, which often involves coordinating services with other public and nonprofit agencies.
- **What other objectives are worth supporting?**
In addition to increasing or preserving the supply of affordable housing, many jurisdictions use their trust funds to achieve additional community goals. For example, trust funds can support mixed-income projects to increase social and economic integration, mixed-use projects to bring homes, shopping, and workplaces closer together, homeownership to stabilize neighborhoods and help residents build financial assets, or rehabilitation of existing units to improve living standards and decrease blight and neighborhood disinvestment.
- **How much revenue will be generated to support the fund?**
Modest revenues may be used to provide “shallow” subsidies that dedicate a small amount of funding to individual projects. They can also support technical assistance, nonprofit capacity building, small grants, short-term loans, or activities where funds are heavily leveraged with other funding sources. More extensive revenues can support more ambitious programs, such as financing to bridge funding gaps, rental housing assistance, and support services.
- **What other unique circumstances exist?**
For example, are there a number of vacant homes that could be acquired and rehabilitated? Could agency-owned property accommodate new housing development? In some rural areas, infrastructure needs might need to be addressed before any housing production can occur. Other examples of specific circumstances that could affect the design of the program include a supply of federally-assisted units with expiring use restrictions, financial institutions seeking ways to use Community Reinvestment Act (CRA) obligations, or the need to secure matching funds to take advantage of state or federal programs.

Adapted from *Workbook for Creating a Housing Trust Fund*, Center for Community Change

What Types of Assistance Should the Fund Provide?

Another issue in designing a housing trust fund is deciding what *types of financial assistance* to offer. Pages six and seven describe the wide variety of forms of financial assistance a housing trust fund can provide.

Most housing trust funds use their funds to fill the final gap in financing, encouraging applicants to first take full advantage of other funding sources and thereby maximize the trust fund's financial leverage. Some housing trust funds offer up-front financing to jump-start projects, making it easier for beneficiaries to attract other funding.

The form of assistance varies widely, and can include outright grants, lines of credit, loans provided at favorable terms that are used to replenish a revolving fund as they are paid back, or loans that need not be paid back or can be converted into grants if specific conditions are met.

How Should Funds Be Distributed?

The *process for awarding and distributing funds* can also vary. Many housing trust funds award funds to specific projects through competitive applications, based on adopted criteria for evaluating applications. Another approach is to support projects administered by other housing programs, such as a jurisdiction's local housing agency, rather than establish a separate set of award criteria for the housing trust fund.

Who Should Be Eligible to Receive Funds?

A fourth program design issue is determining *eligibility* for receiving funds from the housing trust fund. Programs that serve first-time homebuyers or that offer rental assistance may provide services directly to *individuals*, but it is more common for them to work through intermediary organizations. The types of organizations eligible for funding depend upon the target population being served and the kinds of programs the housing trust fund agency administers.

Examples of eligible organizations could include nonprofit developers, for-profit developers, other public agencies (such as redevelopment agencies or housing authorities), and organizations that provide services to special needs populations such as the homeless or mentally ill.

In determining eligibility, it is important to assess the capacity of the recipients. Some areas may have a number of well-run, sophisticated nonprofit housing developers or community development corporations that can put trust funds to use quickly and effectively. Other areas may lack capable and experienced community-based institutions. Under such circumstances, the trust fund will either have to find other partners, or spend resources building the capacity of these organizations.

Housing Trust Funds Serve a Variety of Populations

City of Sacramento

Housing for low-wage workers: In 1989, Sacramento created a housing trust fund financed by a linkage fee on non-residential development. The fee applies to offices, business parks hotels, warehouses, and shopping centers that attract new very low- and low-income employees to the city. A jobs/housing nexus study was conducted to determine the amount of the fee for each category of commercial development. Fee revenues can only be used to construct or rehabilitate housing “likely to be occupied by persons in the labor force.”

Housing Trust of Santa Clara County

The Housing Trust of Santa Clara County is a nonprofit organization funded primarily by private sector donations from Silicon Valley businesses concerned about the lack of affordable housing for skilled workers. It also receives contributions from the local jurisdictions.

Moderate-income new homebuyers: The Trust provides zero-interest loans of up to \$6500 for qualifying buyers who earn up to 120 percent of the median income in the county. The loan’s purpose is to cover closing costs for home purchases.

Low-, very low- and extremely low-income: The Trust also provides low interest loans to nonprofit developers of housing dedicated to the low- (and below) income population. The program’s purpose is to bridge financing gaps and provide cash flow to developers in order to acquire land, fund predevelopment costs or to provide long-term financing for the construction of affordable multifamily housing.

City of San Diego Housing Trust Fund

Housing for the homeless and very-low income: The City of San Diego’s housing trust fund has explicit targets for using its funds. The trust sets aside a minimum of 60 percent of its funds to provide housing for households with incomes at or below 50 percent of the area median and at least 10 percent to provide transitional housing for homeless families and individuals. No more than one-fifth of the funds can be used to provide housing to households with incomes between 50 and 80 percent of the median, and no more than 10 percent can be used to assist median-income first-time homebuyers. The trust fund receives dedicated ongoing revenues from a city housing impact fee levied on new commercial development.

Napa County Affordable Housing Trust Fund

Housing for farmworkers: Napa County, famous for its high-value grapes and wineries, has established a housing trust fund that receives revenues from fees on residential and commercial development, as well as contributions from growers. The county has partnered with the cities in Napa County to create the Napa Valley Housing Authority, a joint powers agency. Funds from the cities, the county, and growers help the authority provide seasonal housing for more than 300 agricultural workers annually and the authority is constructing a new farmworker housing facility that will serve an additional 60 individuals.

Similarly, not all for-profit developers have equal levels of expertise, experience or patience. It is difficult and time-consuming to navigate the processes involved in planning, siting, financing, constructing, and selling (or renting) affordable housing projects.

What Projects and Programs Should the Fund Support?

Another essential task is deciding what kinds of projects and programs the fund should support. Again, this will depend on the assessment of housing needs, the revenue sources available to the fund, and the capacity of organizations and developers in the community to use trust fund resources. Programs can be selected to address the particular circumstances facing the community.

For example, in rapidly developing communities, the trust fund could support programs to ensure that a portion of the new housing constructed is affordable to the target populations served by the fund.

Alternatively, in established communities undergoing demographic change or gentrification, programs may focus on helping existing residents. Options include rental assistance, homeownership programs, help with property maintenance and rehabilitation, or acquiring properties in the neighborhood in order to maintain a supply of affordable housing.

Typical Uses for Housing Trust Funds

- Permanent affordable rental housing, including supportive housing for populations with special needs
- Residential mixed-use developments
- Adaptive reuse of historic schools, warehouses, and other structures into housing or mixed-use developments
- Acquisition of land to provide local sites
- Rehabilitation of existing affordable homes and apartments
- Transitional or emergency housing and homeless shelters
- Preservation of assisted housing (such as purchase of apartments when Section 8 contracts expire)
- Rental assistance for lower income residents
- Foreclosure prevention and rehabilitation loans or grants for owner-occupants
- Home weatherization and emergency repairs
- Homeownership assistance, including down payments, closing costs and mortgage assistance
- New homebuyer counseling and education
- Transportation, in-home care, and other social services for people with special needs

Can the Housing Trust Fund Support Other Community Goals?

Housing trust funds can be effective tools to pursue community objectives in addition to providing affordable housing. For example, housing trust funds have been used to assist the development of mixed-use residential projects in town centers. This has helped communities revitalize their downtowns. Housing trust funds have also supported the development of new housing on vacant parcels in older neighborhoods. This can bring new life and vitality to these communities while helping to reverse the cycle of neighborhood disinvestment and decline.

In some communities, “brownfield” sites (commercial or industrial properties contaminated with toxic pollutants) have been cleaned up and put back into use with the help of housing trust funds. This not only provides needed housing and helps to revitalize neighborhoods; it also improves the environment and reduces the risk to public health.

Housing trust funds are being used to support the development of “transit villages,” new or redeveloped neighborhoods served by new transit lines. Concentrating new residents and businesses near transit increases the number of riders and makes more efficient use of transportation and other public investments, while reducing traffic and air pollution.

Housing trust funds often invest in affordable housing in neighborhoods or subdivisions that would otherwise only be affordable to those with higher incomes. This helps integrate communities socially and economically. Housing trust funds also help people make the leap from renter to homeowner, thereby fostering economic opportunity and building greater personal and community wealth.

Determining Criteria for Trust Fund Support

A final issue in designing a housing trust fund is to determine the *funding criteria* to use in evaluating applications and providing financial support.

The ordinance establishing the trust fund should provide clear direction for fund operations, including funding priorities and the basic requirements all projects must meet, such as 1) income targeting, 2) federal and state laws, 3) inclusion of supportive services, or 4) long-term affordability. Additional program documents—like administrative policies, program guidelines, and requests for proposals—are usually developed by staff to guide day-to-day operations.

According to the Housing Trust Fund Project of the Center for Community Change, trust funds use a number of approaches to maximize the likelihood of meeting program requirements and community objectives. Here are five common approaches, ranging from least to most restrictive.¹¹

1. **Funding Requirements.** The conditions every applicant must meet in order to receive funding are usually spelled out in the program and application materials. Requirements are typically related to the housing trust fund's objectives and generally include all the local, state and federal laws and regulations that must be met.
2. **Competitive Evaluation Criteria.** Housing trust funds typically outline for applicants the evaluation process they will use. Some housing trust funds give points for each criterion and rank each application by the extent to which it meets these criteria. The scores of applications are then compared, and the highest scoring applications are funded. Other trust funds simply list their criteria for evaluating applications and leave it to project proponents to demonstrate that their proposal meets as many criteria as possible.
3. **Funding Preferences.** Some trust funds outline funding preferences, which are less restrictive than priorities. Projects that meet the funding preferences are generally considered more favorably than other projects, but are not guaranteed funding.
4. **Priorities.** Many trust funds place a higher priority on some types of projects than others. These projects must still meet all funding requirements but are more likely to be funded than projects that aren't geared to a specific priority. Examples of priority projects are those that leverage other public and private funds, serve the lowest income households, or keep housing affordable over the long term.
5. **Set-asides.** Nationally, approximately one of every three housing trust funds sets a certain proportion of its funds aside in a separate "pot" to ensure that priority needs will be met. This way, these projects are not forced to compete with other types of projects. Low- and very low-income households are the most frequent beneficiaries of set-asides, followed by nonprofit applicants. Other set-aside beneficiaries may include first-time homebuyers, homeless people, special needs populations, designated neighborhoods, and capacity-building efforts. Usually, if funds in a set-aside account are not used within a certain time period, they are made available for use in other housing trust fund programs.

In designing a program for a specific community, the best approach will depend on the appropriate balance between a program that is flexible and one that serves priority needs. How much flexibility should the trust fund have in making investments? If maximum flexibility is a priority, set-asides or restrictive requirements may not be appropriate. Are there particular housing needs that are consistently overlooked or not addressed by existing programs? In that case, reserving a set amount of funds to address these needs or making these needs a priority may be the most effective way to use the trust fund.

Three Agencies, Three Different Program Designs

City of San Jose Housing Trust Fund

San Jose's housing trust fund is administered by the city's Department of Housing, which also runs the city's redevelopment and other housing programs. Because of the department's ability to coordinate with other programs, the housing trust fund can focus on program needs that would otherwise go unmet. In addition to supporting the production of housing, one-time direct services that are eligible for funding include:

- General homeless assistance to individuals, including motel room fees and transportation costs;
- Support to homeless shelter operators for capital expenses;
- Administration of jobs programs for homeless individuals; and
- Assistance to homelessness prevention programs such as default and foreclosure assistance, housing counseling, and rent payments to prevent eviction.

City of Santa Cruz Affordable Housing Trust Fund

The city's housing trust fund is authorized to make grants, loan guarantees, or letters of credit to a wide variety of projects:

- Creation of new affordable units
- Preservation of existing affordable housing units
- Rehabilitation of multifamily apartments
- Conversion of market-rate units to affordable units
- Construction of accessory units
- Acquisition and rehabilitation for limited equity housing cooperatives
- First-time homebuyer loans
- Predevelopment loans and grants to developers

Menlo Park Below-Market Rate (BMR) Housing Fund

The BMR Fund is designed to assist residents who earn up to 120 percent of median area income. The fund can invest in several types of projects:

- Below-market rate financing for homebuyers
- Purchase of land or air rights to make available for development
- Reduced rate financing for construction or purchase of affordable housing
- Rehabilitation of substandard or uninhabitable structures
- On-site and off-site improvements for affordable housing projects
- Rent subsidies for households with limited incomes

Administering the Program

Program Management

The organizations charged with administering the housing trust fund should be clearly specified in the ordinance or resolution creating the fund. This should also be specified in any administrative guidelines adopted once the housing trust fund is established. Most jurisdictions choose to retain maximum control over their housing trust funds. Some may, however, cede a degree of control if additional funds can be secured by partnering with other organizations.

Administration also involves holding, investing and managing the fund account itself. One of the first issues to consider is how the administrative costs will be paid. Typically, a percentage of the fees collected are used to pay for the administration of the fund. This percentage is often capped (say at 10 percent) to maximize the funds available for housing.

In addition to dedicated revenues, other potential sources of administrative funding include other public agency programs, interest earned by the fund, or fees charged for applications and other services provided by the trust fund.

To provide a framework for expenditures and ensure that priority investments are pursued, some housing trust funds develop a long-term capital plan. A capital plan assists in making program decisions based on projected revenues and sources of leveraged financing. A capital plan typically provides three- to five-year projections (revised annually) based on estimated revenues, program costs, and the number of households to be assisted.

Housing trust funds also typically develop asset management systems to ensure that developers and homebuyers meet their obligations under the housing programs administered by the trust. Procedures should guard against the loss of funds through defaults and assure that the trust fund's regulatory requirements are met. For example, trust funds can put safeguards in place to assure that developers are renting their units at affordable rates, that eligible households are occupying the units, or that resale restrictions are managed properly.¹²

Advisory Bodies

Some housing trust funds have an advisory body other than, or in addition to, the jurisdiction's elected officials. These boards can provide the housing trust fund with a broad range of expertise and provide a way to maintain a connection with the community and its needs.

Virtually all advisory bodies have some responsibility for developing or advising on the policies that govern the fund. In some cases the advisory bodies help recommend applicants for funding.

Advisory bodies can also help buffer the housing trust fund process from politics when controversial decisions – such as siting higher-density multifamily projects in established neighborhoods – are made.

Representation on advisory bodies varies greatly. Some are interagency coordinating bodies with staff from different agencies. Others seek a broad membership of housing advocates, low-income individuals, service providers, bankers, realtors, apartment owners, developers and others. Most advisory bodies look for members who have experience with low-income housing.

Coordinating Housing Programs Locally

Many jurisdictions have found that their housing trust fund provides an opportunity to coordinate their housing activities in new ways. It can also help maximize the likelihood that resources are deployed where they are most needed and can do the most good. Coordination encourages long-range planning and evaluation; it can also contribute to a system that is more accessible and efficient. Some of the key programs that could be coordinated with local housing trust fund activities are outlined below.

Federal Housing Programs

There are three categories of major federal housing programs, including:

1. Grants and aid to local agencies,
2. Direct assistance to individual renters and homeowners, and
3. Subsidies to housing developers.

Local grant and aid programs include Community Development Block Grants, the HOME Investment Partnerships Program, and Homeless Assistance Grants. The federal government also helps support public housing agencies, including more than 100 in California.¹³

Individual assistance includes the Section 8 certificate and voucher program, Federal Housing Administration (FHA) mortgage insurance to enhance the credit worthiness of homebuyers, and Veterans Administration loan guarantees to encourage lenders to make mortgages to qualifying veterans.

Subsidies for private and nonprofit housing development include the Low-Income Tax Credit and the FHA Multifamily Program. (For more information on federal housing programs see www.hud.gov.)

State Housing Programs

The State of California operates a number of affordable housing programs that are designed to promote homeownership, increase the housing supply, preserve affordable housing, and help people with special needs. Most of the state programs are administered by one of five state agencies:

- The Department of Housing and Community Development,
- The California Housing Finance Agency,
- The Department of Veteran Affairs (Cal-Vet Home Loan Program),
- The California Debt Limit Allocation Committee, and
- The California Tax Credit Allocation Committee.

Sources of state funding include the Proposition 46 and Proposition 1C general obligation housing bonds, a veterans state bond fund, tax-exempt mortgage revenue bonds and credit certificates, mortgage insurance premiums, revolving loan funds initially capitalized through the state general fund, allocation of state and federal tax credits, and funds for federal programs administered by the state.¹⁴ (More information on state housing programs is available at www.ca-ilg.org/hrc.)

Local Housing Programs

There are also opportunities to coordinate housing trust fund activities with other local housing-related activities. Housing construction occurs in local communities based on local plans. Many state and federal housing programs are implemented by local agencies. Some of the most important local programs are described below.

Local public housing authorities administer public housing programs that receive federal support. There are more than 100 public housing authorities in California that manage thousands of affordable housing units. These agencies provide subsidized housing directly to qualifying individuals and families in their communities.

New forms of coordination include synchronizing application processes among programs and allowing applicants to apply for multiple sources of funding with a single application. This kind of coordination is easiest where the jurisdiction is responsible for several sources of funding, such as Community Development Block Grant funds and HOME funds, in addition to the housing trust fund.

Local planning and zoning is another important means for local agencies to address the need for affordable housing. Each city and county must adopt a general plan that includes a housing element as one of seven mandatory elements. Through the housing

element, each city and county assesses its need for housing for residents of all income levels, based on its “fair share” of the regional housing need as determined by the regional planning agency.

The housing element must identify areas appropriate for housing and policies to encourage development of an adequate housing supply to meet the need. State law requires local zoning to be consistent with the general plan. The housing element must be updated by the local jurisdiction every five years and reviewed by the state Department of Housing and Community Development for compliance with statutory requirements.¹⁵

Finally, a far-reaching form of local coordination occurs when the activities of the housing trust fund are integrated with broader community planning and development goals. For example, many communities in California are promoting transit-oriented development near transit stations. These projects typically involve several agencies, including the local city or county with land use authority, the transit agency that will construct and operate the transit service, and the regional agency that provides transit funding, as well as private developers.

Housing trust funds can partner with these agencies to include affordable housing in the new development, which may also include market-rate housing, public facilities, and commercial uses.

Conclusion

Communities throughout California have found that a housing trust fund can be a powerful instrument to meet the needs of their residents for affordable housing. By offering a regular, dedicated source of funding, they expand the housing choices and opportunities available to local residents.

Housing trust funds are locally designed and operated, so they can respond to local circumstances and address the most critical unmet needs of the community. They provide flexible funding that can fill gaps or work to complement less flexible state or federal housing programs. They offer communities ways to coordinate a variety of housing programs at the local level, enhancing their overall effectiveness.

But housing trust funds can do more than simply expand the supply of affordable housing. By making strategic investments, housing trust funds have been used to reinforce other community goals in addition to making housing more affordable.

In short, housing trust funds have proven to be a valuable and effective tool which local officials can tailor to their particular circumstances to meet the diverse housing needs of their residents and improve their communities.

End Notes and References

- ¹ These funds are authorized by state legislation; see Cal. Health & Safety Code § 33334.2(a).
- ² See *A Primer on California's Housing Programs*, California Budget Project, revised July 1, 2005.
- ³ See Cal. Health & Safety Code § 50843(d).
- ⁴ See Department of Housing and Urban Development, *www.hud.us.gov*.
- ⁵ See *A Workbook for Creating a Housing Trust Fund*, Center for Community Change, 1999.
- ⁶ See Footnote 35, *Home Sweet Home: Why America Needs a Housing Trust*, Center for Community Change (2001), page 17.
- ⁷ An expanded discussion of the research steps appears in *A Workbook for Creating a Housing Trust Fund*, Center for Community Change, 1999.
- ⁸ Referenced in PolicyLink, *Expanding Opportunity: New Resources to Meet California's Housing Needs*, Winter 2005, page 8.
- ⁹ See *A Workbook for Creating a Housing Trust Fund*.
- ¹⁰ See *A Workbook for Creating a Housing Trust Fund* for a more detailed discussion of the steps involved in designing and administering a housing trust fund.
- ¹¹ *Ibid.*
- ¹² See Marshall & Kautz, *Ensuring Continued Affordability in Homeownership Programs*, Institute for Local Government, May 2006.
- ¹³ See *A Workbook for Creating a Housing Trust Fund*.
- ¹⁴ See *A Primer on California's Housing Programs*.
- ¹⁵ See Cal. Gov't Code §§ 65580 *et seq.*

Selected Online Resources

Brookings Institution Metropolitan Policy Program
www.brookings.edu/metro

California Department of Housing and Community Development
www.hcd.ca.gov

Corporation for Supportive Housing
www.csh.org

Fannie Mae
www.fanniemae.com

Fannie Mae Foundation
www.fanniemaefoundation.org

Housing California
www.housingca.org

Housing Trust Fund Project, Center for Community Change
www.communitychange.org/issues/housing/trustfundproject

Institute for Local Government Housing Resource Center
www.ca-ilg.org/hrc

KnowledgePlex
www.knowledgeplex.org

Local Government Commission
www.lgc.org

Local Initiatives Support Corporation (LISC)
www.lisc.org

Non-Profit Housing Association of Northern California (NPH)
www.nonprofithousing.org

PolicyLink
www.policylink.org

Urban Institute
www.urban.org/housing

Urban Land Institute
www.uli.org

U.S. Department of Housing and Urban Development (HUD)
www.hud.gov