

HOUSING TRUST FUND MODELS

This document summarizes three housing trust fund models (one without dedicated revenue, one with dedicated revenue, and one capitalized by the private sector).

MODEL #1 - NO DEDICATED REVENUE

ARCH – A Regional Coalition for Housing www.archhousing.org

ARCH is a unique collaboration between several local municipal and county governments in the Bellevue Washington area. ARCH's mission is to preserve and increase the supply of housing for low and moderate-income households in East King County. It is created through inter-local government agreement. A key premise behind the creation of ARCH is to create the expertise and resources to help local governments respond to the challenge of affordable housing. By working regionally, smaller local governments have access to tools, resources, and expertise usually only available in larger cities

(Note: Inclusionary zoning is not allowed as part of the state of Washington's Growth Management Law, which was adopted in 1991. This law, however, does require local governments to set affordable housing targets/goals within their community. ARCH is a regional effort to help local governments achieve their goals.)

Organizational Structure

An executive board made up of city and county managers from participating jurisdictions oversees ARCH operations. A 12-15 member Citizen Advisory board is responsible for recommending the use of local government resources and to maintain and understanding of affordable housing issues throughout the community.

Funding

Administrative /Operational funding – this allocation is for staff, office, materials, etc. The total amount is shared by participating jurisdictions based on population.

Housing Trust fund - Each participating jurisdiction contributes funds to ARCH on the basis of a parity program. The parity program identifies funding goals for each jurisdiction using a formula that establishes a range of ideal funding amounts. Accomplishments are measured over a five-year period, allowing for fluctuations within any given year. Local governments are encouraged to meet their funding goals in a variety of ways, including: direct monetary assistance, indirect monetary assistance; and in-kind contributions such as donated land (staff time or office space is not included in this category). Actual revenue source contributions include general funds, CDBG funds, payments by developers, loan repayments, interest earnings, fee waivers, infrastructure improvements, and land. Funding to the Trust Fund is *not* contractual and *not* mandated. Community budgets face many challenges annually and housing is only one. This approach to funding offers local governments flexibility in their contributions to the Trust Fund. The parity program was designed with this flexibility in mind. (See below)

Services

ARCH provides several services to local governments:

1. **Assist households looking for affordable rental and ownership housing.**
 - ARCH helps qualify applicants for a variety of publicly and privately managed rental housing (King County Housing Authority (KCHA) Managed - HUD Assisted Housing; Privately Managed - HUD Assisted Housing; Privately Managed Non-HUD Assisted Housing; and, Senior Rental Housing)
 - ARCH has several below market rate duplexes, condominiums and town homes located in various developments in East King County.
2. **Provide financial support to groups creating housing affordable to low and moderate income households;**

The ARCH Housing Trust Fund (HTF) was created by ARCH member cities in 1993 as a way to directly assist the development and preservation of affordable housing in East King County. The trust fund is capitalized by both local general funds and locally controlled, federal Community Development Block Grant (CDBG) funds. The trust fund process allows ARCH members to *jointly* administer their housing funds, and assist the best available housing opportunities that meet the housing needs of the community.

Since 1993, member cities have made over \$13 million available to fund over 1650 units of housing located in East King County. These funds have been made available as both grants and low interest contingent loans, with almost 60% of funds being loans. This housing had total costs in excess of \$100 million, with other funding coming from a myriad of other public (King County, State of Washington, Federal) and private sources. In some cases cities have also made surplus land available, and/or reduced building permit fees.

Trust Fund Review Process

- Step 1.** An initial screening is conducted by ARCH staff in cooperation with City staff to determine the completeness of each application.
- Step 2.** ARCH will evaluate the remaining applications and develop a recommendation to the respective City Councils as to which projects should be selected for funding. ARCH's recommendation will be made by its Citizen Advisory Board and approved by its Executive Board. (The Executive Board is made up of city managers from the area.)
- Step 3.** The City Councils *will confirm* the recommendation submitted by ARCH, or will return the recommendation, with comments, for further investigation before a final decision is made.

ARCH has no final authority over funding decisions and is not a party to the contracts for Housing Trust Funds; only the Cities and the selected applicants will enter the funding agreements. ARCH, however, at the Cities' request, will make recommendations regarding conditions to be incorporated into the contracts, and may provide some administrative oversight for the contracts.

Housing Trust Fund Resources/Parity Program

The ARCH housing trust a model for how a trust fund can successfully operate *without dedicated revenue*. Local governments have found a variety of local, state, and federal dollars for the housing trust fund. ARCH’s parity program is a flexible way for local governments to discuss and provide funding to the trust fund using the premise that there is no right way to measure a community’s fair share; rather there are many ways. The tables below offer an example of how the parity program works.

Table 1 illustrates how different formulas create different funding goals for each local government. The results of the three formulas are averaged to create an annual average contribution. Local governments try to meet that average annual contribution over a 5 year period.

TABLE 1
PARITY FORMULAS: Summary Tables

City	Population	HsgDemand Planned	NewHsgTar. Projections	Average	Low	High
Bellevue	\$603,420	\$524,430	\$395,116	\$507,655	\$395,116	\$603,420
Kirkland	\$251,732	\$159,202	\$268,311	\$226,415	\$159,202	\$268,311
Redmond	\$243,153	\$552,525	\$453,924	\$416,534	\$243,153	\$552,525
Bothell	\$151,719	\$104,942	\$78,104	\$111,588	\$78,104	\$151,719
Mercer Is.	\$124,081	\$31,840	\$74,429	\$76,783	\$31,840	\$124,081
Issaquah	\$55,333	\$80,538	\$135,074	\$90,315	\$55,333	\$135,074
Woodinville	\$57,463	\$36,523	\$82,699	\$58,895	\$36,523	\$82,699
Newcastle	\$49,546	\$75,574	\$75,348	\$66,823	\$49,546	\$75,574
Medina	\$16,928	\$0	\$2,711	\$6,546	\$0	\$16,928
Clyde Hill	\$16,600	\$0	\$0	\$5,533	\$0	\$16,600
Yarrow Point	\$5,643	\$0	\$0	\$1,881	\$0	\$5,643
Hunts Point	\$2,718	\$0	\$0	\$906	\$0	\$2,718
Beaux Arts	\$1,664	\$0	\$0	\$555	\$0	\$1,664
Total	\$1,580,000	\$1,490,000	\$1,490,000		\$1,048,817	\$2,036,956

Table 2 shows how much local governments actually contributed in 1999 and where the funds came from (general fund, CDBG, waivers, etc.). Note how Mercer Island contributed \$225,000 in 1999 although their suggested average is only \$76,000 through the parity program. On the other hand, Redmond put in \$290,000 when the parity program suggests their contribution should be \$416,000. Although communities may contribute more or less than the average annual contribution based on the parity program in any given year, contributions in subsequent years usually make up the difference. For example, Redmond’s annualized average between 1999-2002 turned out to be \$600,000, while Mercer Island’s was \$131,000. Both amounts were above the expected contributions as developed through the parity program.

TABLE 2

CITY	SOURCE OF 1999 COMMITMENTS			
	CDBG	General Fund	Other	TOTAL
Bellevue	\$128,900	\$412,000	\$620,200	\$1,161,100
Kirkland	\$137,628	\$77,000		\$214,628
Redmond	\$90,000	\$200,000		\$290,000
Bothell	\$106,977			\$106,977
Mercer Is.	\$60,165	\$165,000		\$225,165
Issaquah	\$20,000			\$20,000
Woodinville	\$1,722			\$1,722
Newcastle	\$698	\$47,000		\$47,698
Sammamish				
Kenmore				
Medina	\$218			
Clyde Hill	\$167			
Yarrow Point	\$51			
Hunts Point	\$41			
Beaux Arts Village	\$21			
Total	\$546,587	\$901,000	\$620,200	\$2,067,290

3. Assist member governments in developing housing policies

ARCH provides ongoing staff assistance to local government members for affordable housing policy development. ARCH staff de facto local planning staff on housing issues. This service often arises out of the project funding approval process. As part of the process, local governments often realize the restrictions or lack of incentives within their code restricts or provides no incentives for affordable housing. To make it easier to attract affordable housing development, local governments often work with ARCH to revise their codes and land use policies.

MODEL #2 - DEDICATED REVENUE

Montgomery County, Ohio

Background

This trust fund was established in 1990 and is supported with a special \$1 million appropriation from the County government for this trust fund. The funds are from a one-half cent sales tax collected for affordable housing, economic development and arts and cultural programs. In 1999, the Montgomery County Commission extended its commitment for another 10 years. In addition, the management and day-to-day administration of the Housing Trust Fund has been assigned, via a contract, to the County Corporation. This is a development corporation created by the county that focuses on housing and economic development.

Because the administration of the Housing Trust Fund is part of a larger organization, the administrative costs are quite low – approximately 15% of the fund (\$150,000). Two staff positions provide administration for the fund, with accounting, legal services and other administrative support provided by the County Corporation. A seven member Housing Advisory Board (HAB) provides oversight and direction to the staff. These are persons who are knowledgeable about housing, finance and development.

Program Priorities

Program priorities were initially established through an extensive public process, that included surveys and key informant interviews. Following this process, the County Corporation established funding priorities for the next two years. They are in the process of re-evaluating these priorities and looking to make them consistent with the Housing Action Plan/Consolidated plan of the various jurisdictions. At this time, the three priorities are rehabilitation of owner occupied housing, rehabilitation of rental housing and acquisition of existing rental housing. The establishment of program priorities has been very important to guide the fund allocation process.

Fund Allocation

Twice a year the County Corporation accepts applications for funding. Each time, \$500,000 is made available. This fund is considered “gap” financing and is usually the last source of funds that are made available for projects. They require a 50% match, which can include grants, loans and owner equity or other contributions.

Step 1:

A Technical Review Committee that includes representatives from the Housing Advisory Board, county staff and the President and Vice President of the County Corporation reviews proposals. This group thoroughly reviews proposals for financial feasibility, market acceptance, organizational capacity and past performance on similar projects and decides how much funding to recommend.

Step Two:

The Housing Advisory Board also reviews the proposals, including hearing a presentation from applicants. The usually support the funding recommendations of the Technical Review Committee.

Step Three:

The Housing Agency Committee of the County Corporation makes the final award. The County Corporation is responsible for negotiating agreements and assuring that the funds are used as intended. Decisions do not have to be confirmed by the County Commission; however, monthly progress and status reports are required.

MODEL #3 – PRIVATE SECTOR CAPITALIZATION

Housing Trust of Santa Clara County, California

The Housing Trust is a public/private partnership that has established a revolving loan fund and grants that will complement and leverage other housing resources throughout Silicon Valley. The trust fund has raised more than \$20 million to date, in five-year pledges. This fund has largely been supported through contributions from area employers to address the gap between rapid new job creation and affordable, available housing within Santa Clara County. As an example, three area homebuilders contributed \$400,000 in 2000 to support the fund and Intel launched a \$1.25 million fund to help public school teachers buy housing by paying a portion of the mortgage. Local governments also contribute to the fund, although there is not a “parity formula” that is used. Local government revenue generally comes from the Redevelopment Authority funds or general revenues of each municipality. They do not contribute CDBG funds or federal dollars. They are currently engaged in a fund raising campaign this year and hope to raise \$2 million from local businesses.

Initially the trust fund expected to be financed through a ballot initiative. They completed a poll that found that people thought affordable housing was a critical and important issue, but would not vote for a tax. The employer supported fund was an outgrowth of this work.

Board Structure:

The Housing Trust Fund of Santa Clara County has a 23-member board. Local governments, employers and non-profit entities make up one-third (each) of the board. This was initially done to assure equal representation and because each of the three primary interest areas were not certain what the interests of each member was with regard to the trust. While it is important to have broad representation on the board, for fund raising and policy decisions, there has been some divisiveness as the group grapples with agreements regarding priorities for the fund. Board members are appointed through a nominating committee of other board members and fill vacancies left in one of the three primary interest areas with another member who represents that area.

Funding:

The Santa Clara trust fund provides loans, and in a few instances, grants. A loan program was selected because it “revolves” the funds, which was an important selling point to employers contributing to the fund. Deed-restrictions limiting appreciation on future sales to income qualified households is not part of the program or philosophy. The three primary products they offer include:

1. Predevelopment Loans for non-profit organizations. These loans range from \$50,000 to \$150,000 and cover costs associated with planning, design, market analysis and preparation

of projects for development review. The loans are deferred until completion of the project, at which time they are repaid. Loans for special needs projects, including the homeless and seniors, are often forgiven. The Santa Clara Trust Fund found that predevelopment loans were critical to supporting development efforts of non-profit organizations.

2. Gap financing for special projects is also provided. These tend to be loans on projects for homeless. The length of the loan may vary depending upon the development, but carries a 3% interest rate.
3. Buyer assistance is the largest product they offer. In Santa Clara County the average priced home is over \$550,000 and the median income is \$115,000. Two types of assistance are provided. These can be provided together and are often “layered” with other programs available in the area. Households must contribute at least 1% of the purchase price. The two primary programs include:
 - a. Households earning up to 120% of the Area Median Income can receive a loan that is up to 6% of the purchase price to buy a home that does not cost more than \$550,000. This is a second mortgage that carries a 3% interest rate and is deferred until the home is refinanced or sold. Owners who refinance to lower their total monthly payment and who do not take out any equity are not required to repay the loan at that time.

They work with lenders who provide 97% mortgages. Of the 6% down payment assistance, 3% is used to fund the difference between the mortgage and down payment and the balance is used to pay the private mortgage insurance required on these types of loans.

- b. \$6,500 in closing cost assistance to purchase a home that does not exceed the average sales price. This loan is repaid at the time of sale or refinance and does not have an interest rate for repayment.

Santa Clara chose these types of programs to fund because the amount of funding needed was low enough to prove success early on and they generated high numbers. For example, in the 1.5 years they have been using these programs, 25 owners have used down payment assistance and 460 have used closing cost loans. In addition, the average income of buyers is \$70,000 compared to the area median of \$115,000, so they are clearly addressing a need in the area.

Funding Decisions

A loan committee that is separate from the Board of Directors makes funding decisions. The board focuses on policy, staff oversight and fund raising.

Staffing:

The trust fund has three staff:

- An executive director – her expertise is in non-profit organization management and fund raising. She noted that local governments often consult with the group about housing policy in the area.
- Finance manager – who manages the fund assets, including booking loans, administrative budgeting and similar duties.
- Administrative Support – general office and support duties.