



Expanding Housing Opportunity in California Capitalizing the State Housing Trust Fund

Lifting Up What Works

PolicyLink



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In 2005, PolicyLink produced a report for Housing California looking at our state's unmet housing needs, how dedicated revenue sources and housing trust funds have helped meet affordable-home needs in other states, and the opportunities for creating a dedicated revenue stream to support affordable-home development in California.

This report is an update of that 2005 study. With the legislature considering a dedicated revenue stream for California's housing trust fund, this is an ideal time to learn from other states' experiences and help ensure that all Californians have a decent, affordable place to call home.

State Investment in Quality, Affordable Homes

Californians have been generous in voting to dedicate funds for building quality affordable homes for diverse residents throughout the state. Together, Proposition 46 (passed in 2002) and Proposition 1C (passed in 2007) have infused billions of dollars into California's housing market, which otherwise wasn't producing homes affordable to critical portions of our workforce, our seniors, and our residents with disabilities.

While bonds have been important investments in the building of much-needed affordable homes, creating a *permanent* source of funding would bring us in line with 26 other states that have committed to ongoing investment in public-private partnerships that build affordable places to live. A review of other states' housing trust funds reveals important lessons for California:

- Housing trust funds have been key sources of economic stimulus and job creation in states facing budget deficits and lagging economies.
- Housing trust funds are important sources of financing and leverage for affordable-home developments the market cannot otherwise produce.
- The most robust housing trust funds generally have multiple, permanent revenue sources.
- Those trust funds with the most political support ensure a broad geographic reach; draw support from diverse interests; and demonstrate successful investments in homes, jobs, and additional leveraging of private- and public-sector dollars.



The Purpose of State Housing Trust Funds

State housing trust funds focus on increasing the supply of affordable homes for households the market is not serving, including those who cannot afford to rent a quality place to live, as well as those stretching to own a home. These include working families with low wages, seniors living on limited fixed incomes, women and children escaping domestic violence, low-paid agricultural and tourism workers and their families, and those with severe disabilities that limit their ability to earn a living and who may also require extra support.

Across the country, state housing trusts fund a variety of efforts to help meet such residents' housing needs, including:

- Construction of high-quality, affordable apartments.
- Rehabilitation and preservation of existing affordable apartments.
- Affordable homes for seniors, with access to support services if needed.
- Homeless shelters.
- Transitional homes.
- Domestic violence shelters.
- Independent living options for persons with disabilities.
- Construction and operation of "supportive homes" — affordable rentals with on-site support services for people with special needs.
- Reuse of historic properties and deteriorated public housing.
- Eviction prevention.
- Homelessness reduction and prevention efforts.
- Rental subsidies and assistance.
- Homebuyer education.
- Foreclosure prevention counseling.
- Down-payment and mortgage assistance for low- and moderate-income homebuyers.

California's Housing Trust Fund vs. Other States'

State law in 1985 created the California Housing Trust Fund to assist low- and very-low-income households in meeting their housing needs. The trust fund was made permanent in 1988 and was initially funded with tideland oil revenues, which were subsequently diverted to environmental purposes.

Since then, California's Housing Trust Fund has lain dormant, existing simply as an empty account on the state's books. Californians have periodically voted for bond measures — most recently Propositions 46 and 1C — that provided funds for housing programs. Such periodic bond measures have supported the creation of more affordable-home options for working families priced out of local mortgage and rental markets and for California's most vulnerable citizens, including seniors, battered women, persons with disabilities, and parents and children with only a car or the street to call home.

As of October 2009, the latest bond funds are nearly gone. The state housing trust fund remains empty, without the assurance of a permanent revenue source to address California's broken housing market and meet residents' ongoing housing needs.

This is not the case nationally, or in many other states and localities, where housing costs are usually well below those in California. Nationwide, more than 550 cities, counties, and regions have housing trust funds, as do 38 other states and the District of Columbia. Twenty-six of these state trust funds have *ongoing, committed* revenue sources.¹

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¹ Source: <http://www.communitychange.org/our-projects/htf/other-media/State%20htfund%20revenue%20sources%20final%20wodollars%202008rev.pdf>

The Housing and Economic Recovery Act of 2008, signed into law by President Bush in July 2008, also created a National Housing Trust Fund to support homes for the lowest-income renters. The national fund was originally authorized with a dedicated revenue stream from assessments on Fannie Mae and Freddie Mac, but these assessments were indefinitely suspended by the Federal Housing Finance Agency. In March 2009, the Obama Administration included \$1 billion in its FY 2010 budget for the national trust fund to support the development, rehabilitation, and preservation of affordable homes for extremely low- and very-low-income families.

California's Broken Housing Market: Not Keeping Pace with Growth

California's population growth generates the need for approximately 220,000 new homes annually, but, since 1980, construction has failed to keep pace with this demand. Between 2000 and 2008 alone, residential construction lagged by more than 550,000 homes. The housing supply gap has worsened in recent years. According to the Construction Industry Research Board, 164,280 new homes were built in 2006, declining to 113,034 in 2007 and just 64,962 in 2008.

The focus on single-family home development has left pressing unmet needs for apartments, condominiums, and small for-sale homes that are affordable to Californians with modest incomes.

Of the 1.4 million total new homes built between 2000 and 2008, 70 percent were single-family and tended to be priced at the upper end of the market. The focus on single-family home development has left pressing unmet needs for apartments, condominiums, and small for-sale homes that are affordable to Californians with modest incomes.

The recent foreclosure crisis is a symptom of California's broken housing market. To find a home, many Californians have had to overextend themselves and take on higher

payments than they could truly afford (with "affordable" being defined as no more than one-third of a household's income). Despite falling sales prices, more than one-half of California's households still see housing costs eat up more than one-third of their monthly income. There still are not enough rental or for-sale homes that match what many families earn.

Periodic infusions of housing bond funds have helped tremendously and demonstrate the important catalyst that public investment can deliver in fixing the broken housing market. Bond financing, however, is not the best way to consistently deliver this investment. Bond measures are the product of expensive, competitive ballot campaigns and offer only intermittent infusions to a sector that needs steady investment. California's bonding capacity is becoming more limited with the deterioration of the state budget and economy as well as the large number of bond measures that have recently passed. When the funds from Propositions 46 and 1C dry up, California will again lack the funds needed to spur private developers to keep up with our growth.

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The Economic Importance of Reviving California's Housing Trust Fund

A permanent source of funding for our state's housing trust fund will mean California's affordable homebuilding sector can help fuel an economic recovery while working to ensure that all Californians can find a decent, affordable place to call home.

Most for-profit builders have shown that they cannot make their desired profit on building low-cost rental and for-sale homes. As a result, a vibrant affordable homebuilding industry has developed as an important sector of California's economy. Nonprofit homebuilders comprise the largest part of this sector,

but dedicated for-profit builders are also an important component. With consumer demand always there for their products, these affordable homebuilders continually work to create homes that meet residents' needs that will otherwise not be met by the marketplace.

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The investments California voters have approved to date demonstrate the tremendous contribution affordable homebuilding makes to California's economy. The California Department of Housing and Community Development estimates that as of July 1, 2009, Proposition 46's \$2 billion in housing investments will have created roughly 200,000 jobs; supported the construction or preservation of 114,481 affordable homes or shelter spaces; leveraged nearly \$8 billion in private investments and federal and local resources; and had a direct and indirect impact on California's economy of more than \$25 billion. As of July 1, 2009, Proposition 1C had invested \$1.857 billion (of a total \$2.85 billion)

to create or preserve 48,797 more homes for Californians, and build infrastructure to support more homes. When all funds are awarded, Proposition 1C is expected to leverage another estimated \$17 billion in additional economic investment and produce an estimated 200,000 more jobs.

To sustain the essential economic engine fueled by this most recent bond financing, while meeting California residents' growing housing needs, California would do well to follow the lead of 26 other states and dedicate an ongoing revenue source for California's housing trust fund.

Pairing state funds with federal dollars will help support additional job creation; expand the supply of affordable apartments, condos, townhomes, and houses that better match Californians' incomes; and generate additional tax revenue for a deficit-plagued state.

The recent creation of the National Housing Trust Fund increases the importance of such ongoing state housing investment. Pairing state funds with federal dollars will help support additional job creation; expand the supply of affordable apartments, condos, townhomes, and houses that better match Californians' incomes; and generate additional tax revenue for a deficit-plagued state.

California Award-Winning Development

Del Sol Apartments

Recipient of a San Diego Housing Federation Project of the Year Award (2008)



Proposition 46 funds supported the rehabilitation of an apartment complex, located in the Nestor community in south San Diego, that had been crime-ridden and in serious disrepair. Nonprofit Wakeland Housing and Development undertook major upgrades to the Del Sol Apartments, improved the community's landscaping, and built a new community center to offer adult education programs and after-school programs for youth.

Wakefield relocated tenants during the rehabilitation process, and retained Section 8 rent-levels for residents.

The 91 apartments (2 one-bedrooms, 12 two-bedrooms, 66 three-bedrooms, and 11 four-bedrooms) were completed in 2007 and rented to families earning 60 percent or less of area median income.

Common Revenue Sources for State Housing Trust Funds

State housing trust funds nationwide receive funding from a variety of sources. These include:

- Real estate transfer taxes (RETTs), documentary stamp taxes, or real estate excise taxes. RETTs are assessed on real estate transfers, based generally on the property's value at the time of transfer or sale.
- Document recording fees on real estate or other legal documents that are recorded with an official public agency.
- Unclaimed property funds, such as those from criminal seizures or investigations, or unclaimed bank accounts.
- State capital outlay or infrastructure funds.
- State general fund revenues and appropriations.
- Public purpose charges (surcharge on monthly utility or other bills).
- Interest on real estate escrow accounts.
- General obligation bond revenues or other bond and fee revenues.
- Housing Finance Authority revenues.
- Loan repayments.
- Program income.
- Income tax check-offs.

The following chart highlights revenue sources utilized by a variety of state housing trust funds:

Dedicated Revenue Sources Used by Other States

Revenue Source	States	How the Source Works
Real Estate Transfer Tax (RETT)	District of Columbia Florida Hawaii Maine Nebraska New Jersey Nevada South Carolina Vermont	A real estate transfer tax (RETT), also called the documentary stamp tax or a real estate excise tax, assesses a tax based on property value at the time of sale or transfer. The tax rate for RETTs typically ranges from \$.10 to \$1 per \$100 of value (Nevada is lowest at \$.02 per \$100 of value). Generally, the tax is levied on the seller; some states split the tax between the buyer and the seller. The RETT is considered the most progressive of any revenue source, as it goes up or down in value as real estate values change.
Document Recording Fees	Missouri Ohio Oregon Pennsylvania	Document recording fees are typically assessed when real estate and other legal documents are recorded with the official body designated by the individual state (i.e., county recorders, occasionally real estate boards). Pennsylvania established this source for its housing trust fund in 2008. Missouri charges a recording fee on all real estate documents.
Title Insurance Trust Account Interest or Real Estate Escrow Accounts	Maryland Minnesota New Hampshire Wisconsin	Some states capture interest on the money received by brokers from clients or beneficial owners in connection with escrows, settlements, closings, or title indemnification. The Maryland Affordable Housing Trust collects the interest earned on any deposit that earns less than \$50 in interest. New Hampshire captures such interest and combines it with special allocations from the state legislature. In Wisconsin, real estate brokers are required to establish interest-bearing real estate trust accounts for the deposit of all down payments, earnest money, and other trust funds received by the broker and related to the conveyance of real estate; banks and other depository institutions remit the interest annually to the state.

Income Tax Check-Off	Louisiana	Voluntary income tax check-off goes to Louisiana Housing Trust Fund, supplemented by one-time allocation by the legislature.
Unclaimed Property Deposits	Arizona	State dedicates 55 percent of unclaimed property deposits, interest, or unexpended funds and loan repayments. Unclaimed property includes anything from the contents of abandoned safety deposit boxes to property seized in criminal investigations and sold after no longer needed for evidence.
Multiple Sources	Delaware	A revolving fund, the Delaware Housing Development Fund is supported by a \$5 surcharge on recording fees, annual appropriations through the state budget, interest payments, and loan paybacks.
	Illinois	Illinois dedicates 50 percent of the real estate transfer tax to its main housing trust fund, and \$9 of a \$10 document recording fee on mortgages to a rental subsidy fund.
	Iowa	Iowa dedicates the combination of an appropriation from an infrastructure fund with (as of 2009) 5 percent of the real estate transfer tax, which will increase 5 percent each year until it reaches 30 percent.
	Massachusetts	The Massachusetts Community Preservation Act of 2000 allows cities and towns to vote to adopt a surcharge on local property taxes up to 3 percent. Communities collect the surcharge all year. At year's end, the state issues matching funds that come from document recording fees to fund affordable homes, open space, and historic preservation.
	Washington	In addition to a document recording fee, Washington state biannually issues infrastructure capital bonds and dedicates 15 percent to its housing trust fund. While not widely used, this financing source ties its development of infrastructure to the development of affordable homes.

California Award-Winning Development *Lion Creek Crossings*

Recipient of National Association of Housing and Redevelopment Officials – Award of Excellence Design (2007), The Phoenix Awards Institute – Phoenix Award Brownfield Redevelopment (2007), California Redevelopment Association – Award of Excellence Residential Development/New Construction (2007)

Proposition 46 funds have helped the nonprofit East Bay Asian Local Development Corporation (EBALDC), Oakland Housing Authority, and Related Companies of California redevelop a 22-acre site near the Coliseum BART station in East Oakland. By 2009, three of four phases of Lion Creek Crossings were complete, providing 367 new, high-quality, affordable 1–5 bedroom apartments for families earning 30–60 percent of area median income. Some are specifically designated for persons with disabilities. The development also includes a Boys & Girls Club, two child-care centers, a restored creek, a 5.7-acre park, a state-of-the-art-computer lab, and a job center for residents and neighbors.



Some Lessons Learned from Other States

As described in more detail in Housing California's *There's No Place Like Home: A Legacy of Investment by Housing Trust Funds Across the State and Nation*,² the experience of other states provides a number of lessons for California as it considers creating a dedicated revenue source for the state housing trust fund:

1. As part of their economic recovery strategies, states have capitalized on recessions and budget deficits to provide increased or permanent funding for their housing trust funds.
2. State housing trust funds leverage significant public and private dollars for affordable-home needs in their states.

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3. State trust funds support a variety of important housing programs. Some flexibility to address changing needs and conditions can be helpful to make trust funds as effective as possible over time.
4. By requiring permanent affordability of the homes they fund, state trust funds create long-term stability during changing housing markets.

5. State housing trust funds vary greatly in size. The revenue source(s) dedicated to housing trust funds should be designed to effectively address the state's population size and affordable-home needs.
6. State trust funds with multiple revenue sources more-easily weather economic downturns than funds with a single revenue source.
7. Strong working relationships and effective partnerships with stakeholders, government agencies, and the private sector are key to establishing and permanently funding state housing trusts.

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Conclusion

California's current economic conditions create a compelling justification for permanently funding the state's housing trust fund. Demand for affordable homes continues to grow. California's affordable homebuilders comprise a vibrant, capable industry that can help stimulate the economy by leveraging additional public and private financing to generate needed infrastructure, jobs, tax revenues, and homes that Californians can afford.

Dedicating one or more permanent sources of revenue to California's housing trust fund is therefore both a prudent and essential step for California's economic recovery and long-term future.

Additional Reading:

Expanding Housing Opportunity in California: Capitalizing the State Housing Trust Fund (Executive Summary): http://www.housingca.org/site/DocServer/execsumm_HTF-update_2010_FINAL.pdf?docID=183.

There's No Place Like Home: A Legacy of Investment by Housing Trust Funds Across the State and Nation: http://www.housingca.org/site/DocServer/execsumm_HTF-update_2010_FINAL.pdf?docID=183.

² Available at http://www.housingca.org/site/DocServer/execsumm_HTF-update_2010_FINAL.pdf?docID=183.