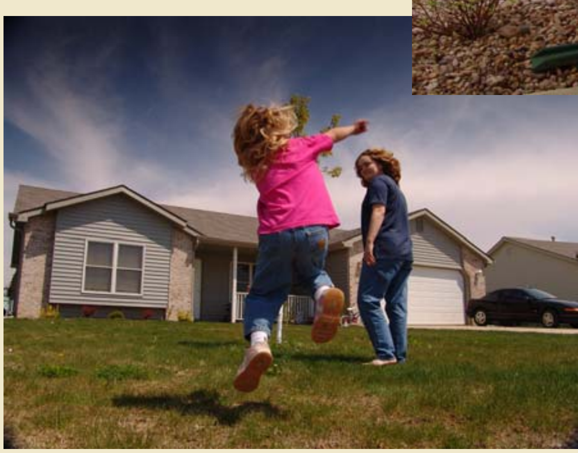
The Indiana Affordable Housing and Community Development Fund

Report and Recommendations from the Advisory Committee

June 6, 2006



Members of the Advisory Committee of the Indiana Affordable Housing and Community Development Fund: June 2006

Chair: Fred Hash, Great Lakes Capital Fund

Charles Boyle, Office of Mental Health Policy and Planning, Indiana Family and Social Services Administration

Larry Gautsche, LaCasa of Goshen

Jamie-Joe Harris, Bedford Urban Enterprise Association

Jack McCombs, Prodigy Realtors

Darlene Mezetta, Mezetta Construction

Beverly Mukes-Gaither, Fifth Third Bank

Cortne O'Neill, Housing and Community Services, Indiana Family and Social Services Administration

Steve Proctor, CAP of Western Indiana

Caroline Shook, Housing Opportunities, Inc.

Zohrab Tazian, Tazian Enterprises

Hillary Tebo, Wall's Homes

George Tikijian, Tikijian Associates

Alice Weathers, CAP of Evansville and Vanderburgh County

The information and recommendations contained in this report represent the views of the Advisory Committee of Indiana's Affordable Housing and Community Development Fund, and are not necessarily those of the administration of Governor Mitch Daniels or the Indiana Housing and Community Development Authority.

Table of Contents

Executive Summary

The Indiana Affordable Housing and Community Development Fund

Indiana's Affordable Housing and Community Development Fund (formerly the Low-Income Housing Trust Fund) is used to help develop housing that is affordable to low- and very low-income Hoosier families. The Development Fund is overseen by the Indiana Housing and Community Development Authority (IHCDA), a quasi-governmental state agency. While it has helped create over 1,400 units of affordable housing, it does not have a long-term, dedicated source of revenue. Thus, the Development Fund has been unable to help every Hoosier who needs it.

Purpose of This Report

Indiana's Affordable Housing and Community Development Fund has a 16-member Advisory Committee appointed by the Governor. The Committee and its members represent a broad range of perspectives and interests. Part of the Advisory Committee's responsibility is to prepare recommendations for IHCDA regarding the policies and procedures of the Fund, and the search for a long-term source of revenue to ensure that the Fund can continue and expand its efforts on behalf of affordable housing. The full report provides extensive details on these recommendations, while this Executive Summary provides the same information in abridged form.

Why are Housing Trust Funds important?

Housing is generally considered to be "affordable" if a family spends less than 30 percent of its income on housing costs. Families spending more than this are considered "cost-burdened." After paying their housing costs each month, these families may not have adequate resources to meet other basic needs, such as food, health care, and transportation. Over one-third of American households are currently cost-burdened.

Trust funds—like the Indiana Affordable Housing and Community Development Fund—can help solve this problem. By leveraging other housing resources, trust funds help meet the ongoing demand for affordable housing and close the affordable housing gap. The dedicated, long-term source of funding that is central to housing trust funds provides much-needed stability to housing investments, and allows housing planners and advocates design long-term strategies for meeting housing needs.

Investments in trust funds pay considerable returns. The National Housing Trust Fund Campaign estimates that the 400-plus state and local housing trust funds in the United States infuse more than $750 million per year into affordable housing activities.

About the Affordable Housing and Community Development Fund

The Indiana Affordable Housing and Community Development Fund was created in 1989 under IC 5-20-4-7. However, a long-term, dedicated revenue source for the Development Fund has never been established.

Initially, this was addressed by general fund contributions. The General Assembly approved a $35,000 appropriation in 1989 to establish the Development Fund, as well as $250,000 per year from 1989 through 1992. In 1993, the legislature authorized IHCDA to issue $5 million in bonds payable on behalf of the Development Fund. This resulted in net proceeds of about $3.8 million to the Development Fund. Since then, the Development Fund has received limited funding from the state's General Fund and a variety of other sources, but has not succeeded in securing a long-term, steady source of revenue. Its overall funding has never been sufficient to meet Indiana's affordable housing needs.

Who does the Development Fund serve?

The Indiana Affordable Housing and Community Development Fund is targeted to support housing for families living below a certain income level. The Development Fund—like many other federal and state housing programs—uses Area Median Income (AMI) as a measure of whether a family is low- or very low-income. "Area median income" means that half of the families in a particular area have incomes above this level, and the other half have incomes below this level. AMI varies by location and by family size. It is calculated each year by the federal government for communities across the country.

All Indiana Development Fund spending must go to support housing for families earning less than 80 percent of AMI. In addition, Indiana law requires that at least half of the investments made by the Development Fund must be used to serve families living at or below 50 percent of AMI. The actual investments made by the Development Fund have substantially surpassed this requirement.

Some specific examples of the Development Fund's target population include:

- In Evansville: A teacher's aide earning $20,000; an accounting clerk earning $27,000; a taxi driver earning $17,000.
- In Gary: A firefighter earning $33,000; a head cook at a restaurant earning $26,000; a preschool teacher earning $21,000.
- In Noble County: A cashier earning $16,000; a construction worker earning $32,000; a substance abuse counselor earning $28,000.
- In Vermillion County: A licensed practical nurse earning $32,000; a paralegal earning $29,000; a janitor earning $20,000.

How can Indiana's Development Fund dollars be spent?

One important characteristic of the Development Fund is its flexibility. The Development Fund may provide grants or loans to support a broad range of affordable housing programs, including but not limited to:

- Emergency shelters
- Transitional housing
- Permanent supportive housing
- Rental assistance
- Repair/rehabilitation of affordable housing
- New construction of affordable housing
- Lease-purchase programs
- Down payment assistance
- Homeownership education

What has the Development Fund accomplished?

Despite its lack of a dedicated revenue source, the Development Fund has accomplished a great deal with the funds it has been able to secure. Since 1989, the Development Fund has executed $19 million in loans and nearly $1.5 million in grants. These investments have leveraged almost $90 million in additional funds for the development of affordable housing. In other words, every $1 in Development Fund monies has leveraged $5 in other funds.

The Development Fund has enabled the development of more than 1,400 units of affordable housing to date. Of the loan and grant dollars invested by the Development Fund, 59 percent have supported rental housing, 30 percent were used to fund homeownership, 9 percent supported the creation of emergency, transitional, and supportive housing, and 2 percent were used to provide training and technical assistance.

Indiana Trends: Why the Development Fund is needed

Rising numbers of "cost-burdened" Hoosiers. The number of cost-burdened low-income renter households in Indiana—that is, those that spend more than 30 percent of their income on rent—rose to nearly 240,000 in 2005. In 2004, low-income renters were 46 times more likely to be cost-burdened than non-low-income renters.

Homelessness is on the rise. Over the course of a year, tens of thousands of Hoosiers experience homelessness, and more are at risk of homelessness. At least 17 Indiana emergency shelters have closed in the last three years due to lack of funds.

Rising energy costs. Energy costs across the country are skyrocketing, and Indiana is no exception, according to the Indiana State Utility Forecasting Group. Rising utility costs are likely to have an increasingly severe impact on low-income Hoosiers, and on nonprofit agencies that operate low-income rental housing complexes in which they, as the owner, are responsible for utility costs.

High foreclosure rate. Data from the national Mortgage Bankers Association ranks Indiana's foreclosure rate at .98 percent, the highest in the nation and more than double the national rate. At many points during the last four years, Indiana has had either the highest or the second-highest foreclosure rate in the country.

Emerging markets for homeownership. Indiana's high homeownership rate is a source of admiration for many other states. However, homeownership among low-income and non-white households is far below the average. These emerging populations represent a significant business opportunity for the housing and community development industry.

Growing senior population. By 2025, Indiana's senior population will have soared to 1.25 million, accounting for one in every five Hoosiers. Persons over 65 are the only age group projected to increase in Indiana over the next twenty years. This phenomenon, combined with seniors' growing desire to age in place, will have significant implications for the future demand for housing resources for Indiana's senior population.

Economic Impacts of Development Fund Investments

The Center for Community Change (CCC) describes the economic impact of housing development as a "ripple effect". More housing creates more jobs; then, new wage earners spend their income, which stimulates the economy and creates additional jobs. The CCC estimates that for every $10 million invested in Indiana's housing industry through the

Development Fund, the state benefits from the addition of 2,984 new jobs and over $70 million in new wages.

Using a more conservative analysis from the School of Public and Environmental Affairs at IUPUI, we estimate that the nearly $20 million invested by the Development Fund to date has leveraged over $90 million in other funds, generated 1,600 new jobs resulting in $52 million in new wages, and has created nearly $83 million in income for other industries.

Household Impacts of Development Fund Investments

Safe, adequate housing means healthier children. Homeless children suffer almost twice the respiratory infections, five times the diarrheal infections, seven times the iron deficiency, twice as many hospitalizations, and significantly worse overall health status compared to housed children. Children living in substandard housing also face many of these issues. These health-related problems can result in higher public costs in health care, particularly given that many Indiana families living in poverty are uninsured.

Educational attainment. Housing stability can have a direct impact on educational achievement. When families move in search of affordable housing, it often means that their children must change schools. Stable housing allows children to remain in the same schools over the long term. The Kids Mobility Project, a study that looked at mobility patterns among more than 6,000 children in the Minneapolis public schools, found that children whose families moved regularly performed more poorly on academic achievement tests.

Stable housing promotes stable workers. Research suggests that affordable rental housing can play a critical role in promoting increased employment and earnings among very low-income households. One leading welfare reform research organization conducted a series of studies showing that families who receive rental housing assistance are more likely to enjoy increased employment and earnings.

Greater value and better quality of life for seniors. Seniors who are able to remain in their homes rather than moving to a nursing home reap a number of benefits. Aging in place helps seniors remain self-sufficient, keeps them socially engaged, encourages cost-saving interdependence between friends and neighbors in the community, and promotes higher quality of life and personal control among seniors. It may also save money, because the delivery of any needed care is tailored to the specific requirements of the individual. This can help avert situations in which care is provided that actually exceeds a senior's needs, as defined by their personal desires and ability to live independently.

Homeownership builds healthier communities. Higher rates of homeownership confer benefits on both homeowners and their neighborhoods. Numerous studies have demonstrated that homeowners enjoy greater social stability, higher educational achievement, increased civic engagement, improved health outcomes, lowered crime and domestic violence rates, and reduced participation in public assistance. On a community-wide level, higher homeownership rates lead to improved property maintenance, higher property value appreciation, and lowered mobility rates.

Homeownership provides positive impacts for generations to come. The benefits of homeownership also extend to future generations. A 2002 study finds that compared to children of low-income renters, children of low-income homeowners tend to earn 24 percent more; are 20 percent more likely to graduate from high school; are 62 percent more likely to attend college; have 33 percent less likelihood of teenage pregnancy; and have 40 percent less likelihood of idleness at age 20.

Calculating Indiana's Affordable Housing Needs and Associated Costs

The tables below illustrate the number of additional units of affordable housing that are required to meet Indiana's needs; the costs associated with creating that housing; existing funding sources; and the resultant funding gap that could be filled by the Development Fund.

We recognize that it will not be possible to meet all of Indiana's housing needs right away. In other states and localities, the majority of Development Funds set long-term affordability requirements of up to 30 years. For this reason, and so that we may be as conservative as possible in estimating the time and resources required to meet Indiana's affordable housing needs, we will use the 30-year standard in making our estimate of funding needs.

Table A lists the number of units of affordable housing currently needed in Indiana by housing type, as well as an estimate of the cost to meet these housing needs at current levels and over a 30-year period.

Table A: Gross Cost to Meet Current and Future Affordable Housing Needs

Housing Type	*Number of Units Needed*	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*
Housing for the Homeless	3,600	$89,708,000	$142,263,000
Rental Housing	239,347	$11,910,715,000	$18,888,574,000
Homebuyer	109,715	$961,709,000	$1,525,124,000
Total Need	**352,662**	**$12,962,132,000**	**$20,555,961,000**

Therefore, Indiana has a demand for nearly $13 billion in current dollars—or $432 million per year for 30 years—to ensure that Hoosiers' basic housing needs are met. However, this does not mean that $13 billion in new money is needed. In fact, a portion of this funding may be provided through a range of resources that are currently available. Table B examines the existing public, private, and philanthropic resources available to finance Indiana's affordable housing needs, and calculates the funding gap that could be filled by the Development Fund at both current and future levels.

Table B: Gap in Current and Future Affordable Housing Resources			
Total Annual Investment Required to Meet the Need	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*	*Percentage*
	Total Current Cost $12,962,132,000	*Total Future Cost $20,555,961,000*	
Average Annual Investment	$432,071,000	$685,199,000	100%
Average Annual Funding From Existing Resources	$217,898,000	$345,553,000	50.5%
Estimated Leverage from Private Industry and Philanthropy	$144,744,000	$229,542,000	33.5%
Annual Development Fund Gap	**$69,429,000**	**$110,104,000**	**16%**

Table C breaks down this Development Fund gap into the ratios expected from public, private, and philanthropic sources at both current and future levels. This may be useful in identifying appropriate funding mechanisms to fill the gap.

Ultimately, we estimate that $41 million in new public funds is needed each year to meet Indiana's affordable housing needs.

Table C: Breakdown of Development Fund Gap by Resource Type		
Type of New Funds	*Current Gap*	*Future Gap (assumes 3 percent annual increase over 30 years)*
Total	$**69,429,000**	**$110,104,000**
New Private and Philanthropic Funds	$27,772,000	$44,042,000
New Public Funds	$41,657,000	$66,062,000

Recommendations of the Advisory Committee: Sources of Revenue

The Advisory Committee of Indiana's Affordable Housing and Community Development Fund is charged with the responsibility of preparing recommendations with regard to the policies and procedures of the Development Fund, and with regard to securing a long-term source of revenue.

The Advisory Committee recognizes that the funds to fill this gap may not come from a single source. Investments from private sources will be targeted, and contributions to the

Development Fund from IHCDA itself are also expected. These will help meet a portion of the need. However, a dedicated, long-term stream of funding is crucial.

In recent months, the Advisory Committee has considered 24 potential revenue sources. Its recommendations are based on several criteria: impact and effectiveness, relevancy and germaneness, and the recognition that public and private entities alike will need to share the investment required to meet Indiana's affordable housing needs.

Apply a surcharge to document processing fees. Policymakers could have substantial flexibility as to what such a fee might be called and how it would be structured. This type of fee would have a clear connection to the housing and real estate markets, and would place a very small financial burden on each homebuyer. Since there is already a fee in place to record documents, an additional surcharge would create very few administrative costs.

Utilize a portion of the increase in sales tax revenues collected on building materials above a base year. In this scenario, a base year would be chosen, and the amount of sales taxes collected on building materials for that year would be determined. This amount would continue to go to the General Fund, but a percentage of additional sales taxes over the base amount collected from that source in future years would go to the Development Fund.

Implement a surcharge on the issuance of all local government bonds in Indiana. A small surcharge could be added to each bond issue in Indiana. Since Indiana's current total bond volume is approximately $2.5 billion, even a very small surcharge (in the range of .25 percent to 1 percent) would provide a significant portion of the funds required to fill Indiana's affordable housing gap.

Explore bond issues. In 1993, IHCDA was authorized to issue $5 million in bonds payable on behalf of the Development Fund to be purchased by the Indiana Board for Depository Institutions (PDIF). IHCDA could seek authority to issue additional bonds for the same purpose.

Secure IHCDA funding. Since the Development Fund's inception, IHCDA has provided approximately $6.5 million in capital. IHCDA plans to continue to commit $500,000 per year to the Development Fund.

Recommendations of the Advisory Committee: Programmatic Options

The Advisory Committee has considered the Development Fund's potential programmatic priorities at length, and has issued the following recommendations:

Categorization of programs. The Development Fund should establish three or four different categories for funding applications, which could include, but are not limited to, the following. Each category could be allotted a certain percentage of the available funds.

- Bricks-and-mortar/rental assistance.
- Supportive services.
- Operating support.
- Creative/innovative projects.

Public input on priorities. IHCDA should consider a bi-annual opportunity for public input, which would allow the Advisory Committee to set out funding priorities for a two-year period and respond to changes in funding needs.

Supportive/gap financing. The Development Fund should never be the primary source of funding for either a project or an agency.

Further research. IHCDA should continue to gather additional data on housing needs in Indiana, if necessary hiring an outside agency or university research center to conduct a study of housing needs across the state.

A Valuable Return on Indiana's Housing Dollar

In this report, we have determined that an additional $41 million per year in new public funding is needed to fill Indiana's affordable housing funding gap. That is a substantial public investment—but it can also generate sizeable returns, as described earlier. And investing in affordable housing is also a cost-cutting strategy. Supporting affordable housing on the front end can save millions of dollars later on. In this section, we illustrate the cost-benefits of investing in affordable housing through three examples that are of particular relevance to Indiana today. The Development Fund could invest in all of these areas, and more—if it had the resources to do so.

Helping Seniors Age in Place

Owner-occupied rehabilitation, home modifications such as wheelchair ramps, and affordable senior rental housing are all viable solutions to help keep seniors in their homes rather than moving to a nursing home. Aging in place helps seniors remain self-sufficient and promotes higher quality of life. It can also save money because it avoids high nursing-care fees and care that may exceed a senior's actual needs, as defined by their personal desires and ability to live independently.

Approximately 47,000 Hoosier seniors live in nursing homes. Of these, about 26,000 use Medicaid. According to an Illinois study, 20 percent (5,200) are likely receiving excess services that they do not need based on their level of independence. The Indiana Department of Aging will release a report in July that will contain estimates of savings that could be realized for this population by shifting from nursing home care to lower-cost, supportive community living.

Retaining Homeownership: Foreclosure Prevention Strategies

A Freddie Mac study found that pre-purchase homeownership counseling reduced 90-day delinquency by 19 percent. Pre- and post-purchase counseling cut default rates by 50 percent in an Ohio State University study.

Multiple studies have found that post-purchase counseling, emergency assistance, and/or loss mitigation avert up to 60 percent of foreclosures and save a minimum of $15,000 per mortgage in foreclosure costs for homeowners and the lending industry.

At Indiana's current rate of foreclosure, similar prevention strategies would cost $5 million, would save at least $22.5 million per year, and would preserve the housing assets of 1500 low-income households.

Affordable Rental Housing: Keeping Families Stable

Providing affordable rental housing may take the form of direct rental assistance or development subsidy. It may also include supportive services to help families stabilize and move toward self-sufficiency.

Safe, quality housing helps keep children from being removed from their families and placed in foster care. Providing permanent housing and supportive services for the 650 Indiana children removed from their homes due to inadequate housing would cost $8.7 million—$22 million less than it would cost to keep them in the foster care system.

Stable, affordable housing also reduces transient student populations and dropout rates. Based on the most current longitudinal study of dropout rates, conducted by the U.S. Department of Education, Indiana children who change schools more than three times before eighth grade are nearly 2.5 times more likely to drop out than those who are less transient. In Missouri, each dropout costs the state $4,000 a year for the rest of their lives in increased incarceration and social services costs.

Next Steps for the Development Fund

The renewed energy and interest being focused on Indiana's Affordable Housing and Community Development Fund are an important step in moving toward an Indiana where all Hoosiers have a safe, quality home that they can afford. The Development Fund can play a significant role in achieving that goal.

The recommendations made by the Advisory Committee are an important part of this conversation. Now, these recommendations must be further considered to determine which will be implemented. Policymakers, administrators, funders, practitioners, and other stakeholders will all have an interest in the outcomes.

The Advisory Committee's role does not end with the presentation of this report. The Indiana law that institutes the Advisory Committee provides for a broader and longer-reaching responsibility. The Advisory Committee will continue to meet and provide input on the activities of the Development Fund, including the application process and recommendations regarding specific funding applications.

I. Introduction: Trust Fund Basics

The Indiana Affordable Housing and Community Development Fund

The Indiana Low-Income Housing Trust Fund, created by the General Assembly in 1989, helps generate housing for low- and very low-income Indiana families. The Fund is overseen by the Indiana Housing and Community Development Authority (IHCDA), a quasi-governmental state agency.

On July 1, 2006, new Indiana statutory language will take effect that will change the name of the Fund to the Indiana Affordable Housing and Community Development Fund. In anticipation of this shift, we will refer to the Fund by its new name throughout this report.

Purpose of This Report

The Development Fund has a 16-member Advisory Committee, appointed by the Governor, which represents a broad range of perspectives and interests. See Appendix A for a list of Advisory Committee members.

Part of the Advisory Committee's responsibility is to prepare recommendations for IHCDA regarding the policies and procedures of the Development Fund, and the search for a long-term source of revenue to ensure that the Development Fund can continue and expand its efforts on behalf of affordable housing. This report contains the Committee's recommendations, which have been developed over the past twelve months.

What is a housing trust fund?

Housing trust funds are designed to create and preserve affordable housing at the national, state, or local levels. They are established by legislation, ordinance, or resolution. Housing trust funds may be supplied with funds in a wide variety of ways, often involving a blend of public, private, and/or philanthropic dollars. These dollars are then used to invest in and support a broad range of housing-related activities for low-income households, such as:

- Developing quality rental housing that is within the reach of working families.
- Creating opportunities for homeownership, and helping keep people in their homes through foreclosure prevention activities.
- Providing emergency shelters and transitional housing for families in crisis, and supportive housing to help get them back on their feet.
- Helping seniors stay in their homes and remain independent.
- Creating community-based, supportive housing for people with disabilities as an alternative to institutional care.
- Promoting innovative strategies to help keep housing affordable.

Who The Development Fund Helps: Tim in Corydon

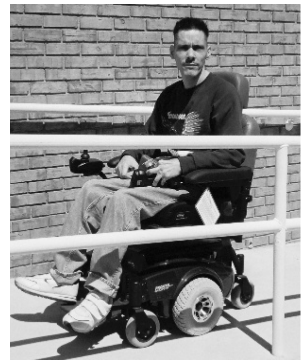
Tim, 44, has surmounted more obstacles than most of us can imagine. Born with cerebral palsy, Tim also has osteoporosis, rheumatoid arthritis, diabetes, and nerve damage—but most of all, he has an independent and courageous spirit.

Tim lives a normal, active life, though he has to work harder than most to get around. Fortunately, his handicapped-accessible apartment at Oakview Apartments in Corydon fits all of his needs—including his budget.

Blue River Services, which owns Oakview Apartments, also offers Tim and his neighbors at Oakview a range of other amenities, such as transportation and referrals to employment services.

Tim represents just one example of the thousands of Hoosiers with disabilities who need a safe and sustainable place to live. For Tim and others with disabilities, accessible and supportive housing can help make the difference between merely surviving—and thriving.

Throughout this report, we tell stories of Hoosiers whose lives would not be the same without the housing that the Development Fund has helped to create.



Hoosiers like Tim find independence and dignity through affordable, accessible housing.

Why are housing trust funds important?

Housing is generally considered to be "affordable" if a family spends less than 30 percent of its income on housing costs.[i] For homeowners, total housing costs include mortgages, taxes, insurance, utilities, fuels, and condominium or mobile home fees. For renters, housing costs are equated with gross rent and include rent, utilities, and fuel costs.

Families spending more than 30 percent of their incomes on housing costs are considered "cost-burdened." After paying their housing costs each month, cost-burdened households may not have adequate resources to meet their other basic needs, such as food, health care, and transportation.

Millions of American families fall into the cost-burdened category. They struggle each month to make ends meet because housing costs are unaffordable. Over one-third of American households are currently cost-burdened.[ii]

Adding to the challenge is the fact that the supply of affordable housing does not meet the high level of demand. A 1999 bipartisan Millennial Housing Commission report identified a gap of nearly 17 million units of available and affordable rental and homeownership housing for low-income Americans.[iii] Harvard University's 2005 *State of the Nation's Housing Report* estimates a rental gap of 5.2 million units nationwide.[iv]

Trust funds can help solve this problem. By supplementing, complementing, and leveraging other public and private housing resources, trust funds help to meet the ongoing demand for affordable housing and close the affordable housing gap. Because they are locally designed, they are particularly well-suited to address the special needs and challenges—and take advantage of unique opportunities—in the communities that they serve.

The dedicated, long-term source of funding that is central to housing trust funds provides much-needed stability to housing investments, and allows housing planners and advocates to design long-term strategies for meeting the needs of working and/or vulnerable households. Appendix B lists revenue sources used by trust funds in other states across the country.

Finally, investments in trust funds pay considerable returns. The National Housing Trust Fund Campaign estimates that the 400-plus state and local housing trust funds in the United States infuse more than $750 million per year into affordable housing activities.[v] Later in this report, we will discuss the economic and community impacts of Indiana's own investments in affordable housing.

II. The Indiana Affordable Housing and Community Development Fund

Indiana's Affordable Housing and Community Development Fund is a trust fund that is used to help develop housing that is affordable to low- and very low-income Hoosier families. It is administered by the Indiana Housing and Community Development Authority (IHCDA), a quasi-governmental agency whose mission is to help build strong communities by providing financial resources and assistance to qualified partners throughout the State of Indiana in their development efforts. A primary focus of IHCDA is providing a range of housing for low-income Hoosiers.

History of Indiana's Development Fund

The Indiana Affordable Housing and Community Development Fund (originally the Low-Income Housing Trust Fund) was established in 1989 under IC 5-20-4-7, following a campaign led by a coalition of housing and community development groups. The coalition's key messages to legislators were the seriousness of the need for affordable housing in the face of an increasing homeless population and a growing waiting list for rental assistance. These messages resonated with policymakers on both sides of the aisle, helping the coalition secure its victory.

However, the goals of the coalition were only partially realized. It had sought both to create the Affordable Housing and Community Development Fund, and also to ensure that it had a long-term, dedicated revenue source. Though the Development Fund was established, the revenue source was not.

Initially, this was addressed by general fund contributions. The General Assembly approved a $35,000 appropriation in 1989 to establish the Development Fund, as well as $250,000 per year from 1989 through 1992. In 1990, IHCDA commissioned a feasibility study of potential funding sources for the Development Fund, and potential programs to be funded. A summary of the study's findings is located in Appendix C. In 1993, the legislature authorized IHCDA to issue $5 million in bonds payable on behalf of the Development Fund. This resulted in net proceeds of about $3.8 million to the Fund. Since then, the Development Fund has received funding once from the state's General Fund and in other years from a variety of other sources (see Appendix D for details), but has not succeeded in securing a long-term, steady source of revenue. Its overall funding has never been sufficient to meet Indiana's affordable housing needs.

Once the original legislation was passed and the Development Fund had been established, a 16-member Advisory Committee was formed to advise IHCDA on policies and procedures and to make recommendations regarding long-term sources of funding for the Development Fund. Members of the group were appointed (see Appendix E for a list of original Committee members), but after 1992, the Committee was no longer actively meeting. Appendix F contains further details on the history of the Development Fund, including legislative activity, attempts to secure additional funding, early funding rounds, and a summary of loans made.

Over the past year, the Development Fund has enjoyed renewed attention. Governor Daniels' administration has demonstrated its support by reconstituting the Development

Fund Advisory Committee, which is now meeting regularly for the first time in over a decade. Members of the public, private, and nonprofit sectors have all recognized the need to infuse the Development Fund with new energy.

Who does the Development Fund serve?

The Indiana Affordable Housing and Community Development Fund is targeted to support housing for families living below a certain income level. This is because a home is considered “affordable” if the housing cost (including mortgage or rent and utilities) is no more than 30 percent of a family’s income. Therefore, if a family has low income, the amount they can afford to spend on housing is also low. This means that they may have few or no housing choices that are affordable.

The Development Fund, like many other federal and state housing programs, uses Area Median Income (AMI) as a measure of whether a family is low-income. “Area median income” means that half of the families in a particular area have incomes above this level, and the other half have incomes below this level. AMI varies by location and by family size. It is calculated each year by the federal government for communities across the country.

All Development Fund spending must serve families earning less than 80 percent of AMI. In addition, Indiana law requires that at least half of the investments made by the Development Fund must be used to serve families living at or below 50 percent of AMI. The actual investments made by the Fund have substantially surpassed this requirement.

Some specific examples of the Development Fund’s target population include:

- In Evansville: A teacher’s aide earning $20,000; an accounting clerk earning $27,000; a taxi driver earning $17,000.
- In Gary: A firefighter earning $33,000; a head cook at a restaurant earning $26,000; a preschool teacher earning $21,000.
- In Noble County: A cashier earning $16,000; a construction worker earning $32,000; a substance abuse counselor earning $28,000.
- In Vermillion County: A licensed practical nurse earning $32,000; a paralegal earning $29,000; a janitor earning $20,000.[vi]

For comparison purposes, the 2005 federal poverty line for a family of four is $19,350. For a low-income elderly, blind, or disabled couple receiving Supplemental Security Income (SSI), the maximum annual federal benefit would be $10,428 per year.

How can Indiana’s Development Fund dollars be spent?

One important characteristic of the Development Fund is that the money in the Fund may be spent on a wide spectrum of housing activities that low-income Hoosiers need most. This is reflective of national trends for trust funds, and puts Indiana on par with other states in terms of the funding priorities that may be set for the Development Fund.

The Development Fund may provide grants or loans to support a broad range of affordable housing programs, including but not limited to:

- **Emergency shelters.** Shelters provide the most fundamental sanctuary for those without a safe and affordable place to live. Indiana’s shelters serve families and individuals who are homeless, survivors of domestic violence, runaway youth, and many others.

- **Transitional housing.** Transitional housing represents the bridge between living in a homeless shelter and a permanent home. It often is accompanied with other services to help individuals and families get back on their feet, such as job training, GED preparation and training, child care, and/or financial education.

- **Permanent supportive housing.** Supportive housing provides a range of services along with the housing itself to help those with special needs, including physical or mental disabilities, live with independence and dignity. For members of these communities, supportive housing offers a safe and sustainable place to live.

- **Rental assistance.** Keeping rental housing affordable for low-income households can help avert homelessness and provide the stability that families need to become self-sufficient.

- **Repair, renovation, and rehabilitation of affordable housing.** Even the best housing needs maintenance and repair over time. Investments in rehabilitation of housing can help low-income residents stay in their existing homes and keep those homes affordable. In addition, there are many units of housing that could be used to meet the demand for affordable housing if only needed repairs were made.

- **Preservation of affordable housing.** The Development Fund can be used to recapitalize existing housing that is already targeted toward people with lower incomes, extending the commitment to long-term affordability.

- **New construction of affordable housing.** In some communities, adequate supplies of appropriate and affordable housing simply do not exist. The Development Fund can help make many types of new affordable housing developments possible, from apartment communities specifically geared toward seniors or people with disabilities to single-family homes designed for prospective new homebuyers—and more.

- **Lease-purchase programs.** These programs can help make the dream of homeownership a reality for low-income families who are willing to invest in their homes and themselves over time.

- **Down payment assistance.** Coming up with the down payment for a home can be a significant challenge for working families. Removing this barrier through down payment assistance opens the door to opportunity, helping families acquire

Who The Development Fund Helps: Peggy in West Terre Haute

Because of Providence Housing Corporation, Peggy was able to become the proud owner of a house of her own in West Terre Haute.

Her home is convenient to her job as a receptionist, and to the school that her two daughters attend. “But the most important reason why I decided to invest in a home here,” she says, “is because it was an opportunity to prove to myself and to other people that I could make it!”

Peggy particularly appreciates the fact that the schools in West Terre Haute are smaller, which is good for her daughters. She says that the best part is “that the house is mine… I can paint it whatever color I want. My older daughter chose neon green for her room!”

Peggy likes her yard, her neighborhood, and her neighbors. She recalls, “One of my daughters said, ‘I hope you live in this house forever.’”

an important asset that will grow in value over time and allowing them to build equity in their investments.

- **Homeownership education.** It's not just about helping people become home*buyers*—it's also about helping them remain successful home*owners* over the long term. Studies show that pre- and post-purchase homeownership education training can reduce default and foreclosure rates and help families hold on to their most valuable asset: their homes.

What has the Development Fund accomplished?

Despite its lack of a dedicated revenue source, the Development Fund has accomplished a great deal with the funds it has been able to secure.

Funds Leveraged

Since 1989, the Development Fund has executed over $19 million in loans and nearly $1.5 million in grants. These investments have leveraged nearly $90 million in additional funds for the development of affordable housing. In other words, every $1 in Development Fund monies has leveraged $5 in other funds. Details on the loans and grants made by the Development Fund are available in Appendix F.

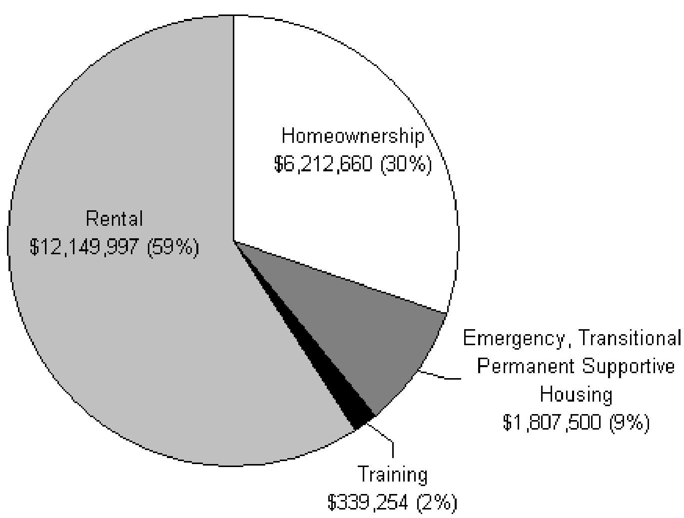
Housing Developed and Funds Invested

Since it was established, the Development Fund has enabled the development of more than 1,400 units of affordable housing, including:

- 750 units of low-income rental housing;
- 400 units of homeownership housing; and
- 250 units of emergency or transitional housing.

Chart 1 illustrates the loan and grant dollars invested by the Development Fund by housing type.

Chart 1. Development Fund Dollars Invested, By Housing Type



Beth, pictured with her dog Dusty, lives in an accessible and affordable home developed using Development Fund dollars.

Resident Demographics

Of the families living in the housing developed with Development Fund investments, 60 percent are white, 35 percent are African American, and the remainder are of other ethnicities.

The statute governing Indiana's Development Fund requires that all of its investments serve families living at or below 80 percent of Area Median Income, and at least 50 percent of its investments must serve families living at or below 50 percent of Area Median Income. However, the Development Fund has significantly exceeded this requirement. Some two-thirds of families who have been served with Development Fund investments earn less than 50 percent of AMI. This means that the investments that have been made have gone above and beyond to serve the most vulnerable Hoosiers—who are often the most challenging to house.

The Impact of the Development Fund:
Beth in Columbus

Housing Partnerships, Inc. (HPI), of Columbus, has received two loans from the Development Fund: one for $325,000 to help fund a 26-unit rental lease-purchase project, and another for $350,000 to help fund a 74-unit homeownership project.

HPI used its Development Fund loans to provide short-term construction financing, moving the money from unit to unit to cover the costs of acquisition and construction until they could line up additional grant funds or obtain permanent financing. This made funds easily accessible with a minimum of paperwork, greatly facilitated the construction process, and, at 3 percent interest, saved HPI money.

"The Development Fund loans provided us with several key benefits," HPI President Mark Lindenlaub explains. "The multi-year award period greatly reduced our administrative costs of using this program, and having construction financing 'in hand' helped us line up our grants and permanent financing for several projects. Most importantly, the low cost of funds helped us create housing at lower cost, providing a direct benefit to the families we serve."

One of those beneficiaries was Beth, who has been confined to a wheelchair by spina bifida since she was a child. As an adult, she has lived on her own for years and needs only minimal accommodations to meet her mobility needs. Unfortunately, accessible rental homes are difficult to find at any price.

HPI partnered with Beth to design a "visitable" house that met her needs. Many of the changes were no-cost items, such as eliminating the step from the porch to the front door, lowering light switches, raising electrical outlets, and installing wider doors. The Development Fund and other grant s allowed HPI to set the rent at more than $200 per month less than market rates, making it affordable for Beth on her fixed income.

How does her home compare to the modified older home she lived in previously? "Oh, my goodness—it's so much easier living here!" Beth exclaims. "Without HPI, I would be in a house where it was much harder to reach things. I would be stretching to reach plugs, and shelves would really be too high for me. Here, they are not." Beth intends to remain in her home for many years to come.

Important Outcomes for the Development Fund

Housing Partnerships in Columbus developed this home and other affordable properties using loans from Indiana's Development Fund.

Economic Impacts

The National Association of Home Builders asserts that home-building produces significant economic activity, including new jobs, new wages, and additional tax revenues. This impact is both immediate and ongoing. The construction activity stimulates the economy on a short-term basis, but ongoing annual impacts also are generated from a broadened tax base and the increased demand for goods and services that is created.[vii]

The Center for Community Change (CCC) describes the economic impact of housing development as a "ripple effect". More housing creates more jobs; then, new wage earners spend their income, which further stimulates the economy and creates additional jobs. Based on this analysis, the CCC estimates that for every $10 million invested in Indiana's housing industry through a trust fund, the state benefits from the addition of 2,984 new jobs and over $70 million in new wages.[viii]

Using a more conservative analysis conducted using data from the School of Public and Environmental Affairs at IUPUI, we estimate that the $20 million invested by the Development Fund to date has leveraged over $90 million in other funds, generated 1,600 new jobs resulting in $52 million in new wages, and has created nearly $83 million in income for other industries.

Community Impacts

In addition, the Development Fund has made it possible for thousands of Hoosiers to access safe, quality, affordable housing. Numerous studies—and common sense—tell us that a family's stability and self-sufficiency is closely linked to having quality housing that meets its basic needs. It is also commonly understood that attractive, well-maintained housing of the type that the Development Fund has supported can help anchor and revitalize struggling neighborhoods. This provides a community-level benefit that is valuable to all residents of a neighborhood, not only those families living in housing created with Development Fund dollars.

Time and space limitations prevent us from being able to tell the story of every person who has benefited from the Development Fund's activities; for each success story told here, there are many more. The accounts in these pages serve to illustrate the substantial positive impact that the Development Fund has had for many members of Indiana's most challenged populations.

III. Why Affordable Housing Matters

Housing is one of the most fundamental human needs. It is such a central and essential part of life that it can affect many different aspects of our lives—for better or for worse. Having a safe, clean, affordable place to call home promotes health, long-term success, and the ability to accumulate assets. Conversely, when quality affordable housing is not available, everyone suffers—individuals, families, and communities. In this section, we describe some of the many important impacts of safe and stable housing, especially as they affect low-income households.

Inadequate or unsafe housing leads to unhealthy children. Homeless children suffer almost twice the respiratory infections, five times the diarrheal infections, seven times the iron deficiency, twice as many hospitalizations, and significantly worse overall health status compared to housed children.[ix] Children living in substandard housing also face many of these issues. These health-related problems can result in higher public costs in health care, particularly given that many Indiana families living in poverty are uninsured.[x]

A study carried out by the Canadian Council on Social Development examined the relationship between poor housing conditions and health. They found that children who lived in poor housing conditions more often exhibited delayed motor skills and social development skills, compared to children who did not have housing problems. Similar differences were found for language development, asthma, emotional disorders, and aggression.

Stable housing boosts educational attainment. Housing instability has a direct impact on educational achievement. When families move frequently in search of affordable housing, their children must often change schools. According to the results of the Kids Mobility Project, a study that looked at mobility patterns among more than 6,000 children in the Minneapolis public schools, children whose families moved regularly performed more poorly on academic achievement tests.

Though Indiana's dropout rate has received substantial recent attention in the legislature and the media, what has been less publicized is the fact that unstable housing exacerbates this trend. Based on the most current longitudinal study of dropout rates, conducted by the U.S. Department of Education, Indiana children who change schools more than three times before eighth grade are nearly 2.5 times more likely to drop out than those who are less transient.[xi]

There are distinct public costs associated with this outcome. The U.S. Census estimates that completing high school raises average earnings by $7,216 a year, or over $200,000 over the course of a lifetime. A recent study calculates that the 2005 class of 17,711 dropouts in Missouri will cost the state $71 million per year over their lifetimes, or about $4,000 each annually, including increased costs associated with Medicaid, incarceration and loss of tax revenue.[xii] In Indiana, 20,000 students drop out each year.[xiii]

Affordable housing promotes a successful workforce. Research suggests that affordable rental housing can play a critical role in promoting increased employment and earnings among very low-income households. One leading welfare reform research organization conducted a series of studies showing that families who receive rental housing assistance are more likely to enjoy increased employment and earnings.[xiv]

Greater value and better quality of life for seniors. Seniors who are able to remain in their homes rather than moving to a nursing home reap a number of benefits. Aging in place helps seniors remain self-sufficient, keeps them socially engaged, encourages cost-saving interdependence between friends and neighbors in the community, and promotes higher quality of life and personal control among seniors. It may also save money, because the delivery of any needed care is tailored to the specific requirements of the individual. This can help avert situations in which care is provided that actually exceeds a senior's needs, as defined by their personal desires and ability to live independently. [xv]

Homeownership builds healthier communities. Higher rates of homeownership confer benefits on both homeowners and their neighborhoods. Numerous studies have demonstrated that homeowners enjoy greater social stability, higher educational achievement, increased civic engagement, improved health outcomes, lowered crime and domestic violence rates, and reduced participation in public assistance.[xvi] On a community-wide level, higher homeownership rates lead to improved property maintenance, higher property value appreciation, and lowered mobility rates.[xvii]

Homeownership provides positive impacts for generations to come. The benefits of homeownership also extend to future generations. A 2002 study finds that compared to children of low-income renters, children of low-income homeowners tend to earn 24 percent more; are 20 percent more likely to graduate from high school; are 62 percent more likely to attend college; have 33 percent less likelihood of teenage pregnancy; and have 40 percent less likelihood of idleness at age 20.[xviii]

IV. Current Trends: Indiana's Need for Affordable Housing

When low- and very low-income Hoosiers try to find safe, quality, affordable housing for themselves and their families, they often encounter serious problems.

- Those who are homeless face the hard fact that many Indiana emergency shelters have closed due to lack of funds, and transitional and supportive housing units are scarce.

- Those who rent their homes are finding it more and more difficult to afford their rent payments.

- Increasingly, low-income Hoosiers who have managed to buy a home are struggling to avoid foreclosure.

- Growing numbers of seniors must make the hard choice between remaining in their homes or trying to find an affordable nursing home or other residence.

- Whether they rent or own, all low-income Hoosiers have felt the bite of rising utility costs.

These represent just a few of the obstacles that Hoosiers encounter every day in their quest for safe, quality, affordable housing.

Homelessness and the Shutdown of Emergency Shelters

Determining the extent of homelessness in Indiana is a challenging task. There are several different ways of measuring homelessness. "Point-in-time" counts seek to tally all those who are homeless on a particular day or week. "Period prevalence" counts, on the other hand, attempt to document how many people are homeless over a given time period.

Both methods are important because homelessness is usually a temporary condition, not a permanent one. While counting the number of homeless people on any given day can provide valuable data, it may miss numerous instances of homelessness that did not happen to occur on that particular day. To create a more accurate picture of homelessness, we must also examine the number of people who experience homelessness over time.

The National Law Center on Homelessness and Poverty, using a detailed analysis of their own data as well as data from the Urban Institute and the National Survey of Homeless Assistance Providers, estimates that approximately 1 percent of the U.S. population experiences homelessness each year.[xix] If applied to Indiana's population of 6 million, this would suggest that about 60,000 Hoosiers per year experience homelessness. Estimates indicate that at least one-third of these are likely children.[xx]

In addition, a growing number of Hoosiers are at risk of future homelessness. This includes the "hidden homeless"—those living temporarily with family or friends, in their cars, or in other places easily missed by homeless counts—as well as very low-income households who

The Impact of the Development Fund: Indiana Cotton Mill, Cannelton

In 2001, Tell City-based Lincoln Hills Development Corporation received a $500,000 loan from the Development Fund to restore the historic Indiana Cotton Mill in Cannelton and turn it into 70 units of low-income housing. The project has won several awards and has been showcased as an example of preservation and reuse.

According to Executive Director Larry Kleeman, this outstanding project could not have taken place without support from the Development Fund. The Development Fund was one of the first of five pieces of financing to come together, and it helped to make the other investments possible.

Most importantly, the Development Fund was instrumental in providing affordable housing options for low-income Hoosiers. "If it had not been for the Development Fund, this project would not have gone forward, and these 70 families would not now have a safe and decent place to live," says Kleeman.

are having difficulty meeting their housing payments.[xxi]

The Indiana Information and Referral Network (IRN), which helps Hoosiers connect to social services, reported over 15,000 housing-related calls in 2005, an increase of 5,000 calls from just three years ago. Of the more than 4,000 requests for rental assistance, 95 percent were recorded as "unmet," meaning that these households were at high risk for homelessness if they did not find a means of paying their rent.[xxii]

Meanwhile, the number of shelters available to handle homeless Hoosiers is shrinking. At least 17 emergency shelters across Indiana have closed in the last three years due to lack of funds. IRN reported a 37 percent increase in calls from people seeking shelter between 2003 and 2004, but was unable to find shelter for 26 percent of those callers.[xxiii]

Indiana's Homeless Management Information System (HMIS), a web-based data collection system that tracks the nature and scope of human service needs across Indiana, is an important tool to help policymakers and advocates address the homeless issue. The HMIS is relatively new, and the number of users reporting data is growing. As use of the HMIS continues to increase, the state will have access to more detailed, better-quality data about the specific housing and shelter needs of the homeless, and will be better able to coordinate supportive services for increased efficiency.

Rising Rent Burdens

The number of cost-burdened low-income renter households in Indiana—that is, those that spend more than 30 percent of their income on rent—rose to nearly 240,000 in 2005. In 2004, low-income renters were 46 times more likely to be cost-burdened than non-low-income renters. Overall, Indiana incomes have also decreased in recent years. The Census Bureau's American Community Survey finds that inflation-adjusted median household income in Indiana decreased by about $2,300 (5 percent) between 2000 ($44,509) and 2004 ($42,195).

Households that include a family member with a disability are more likely to rent than households without a disability, and are more likely to be cost-burdened. Twenty-nine percent of overall Indiana households are renters,[xxiv] compared to 36 percent of households with a disability.[xxv] Moreover, while only 33 percent of overall renter households are cost-burdened, 44 percent of renter households with a disability are cost-burdened.[xxvi]

Indiana does not currently have the capacity to address this need through rental subsidies. There are now more than 6,000 people on the waiting list for the state's non-entitlement Section 8 housing assistance program—almost twice the number of people receiving assistance. The waiting list is currently closed.

Emerging Markets for Homeownership

Non-White Households

Homeownership rates among white households in Indiana are far higher than they are among non-white households. At the same time, Indiana is experiencing a surge in the racial and ethnic diversity of its residents. These emerging populations represent a significant business opportunity for the housing and community development industry.

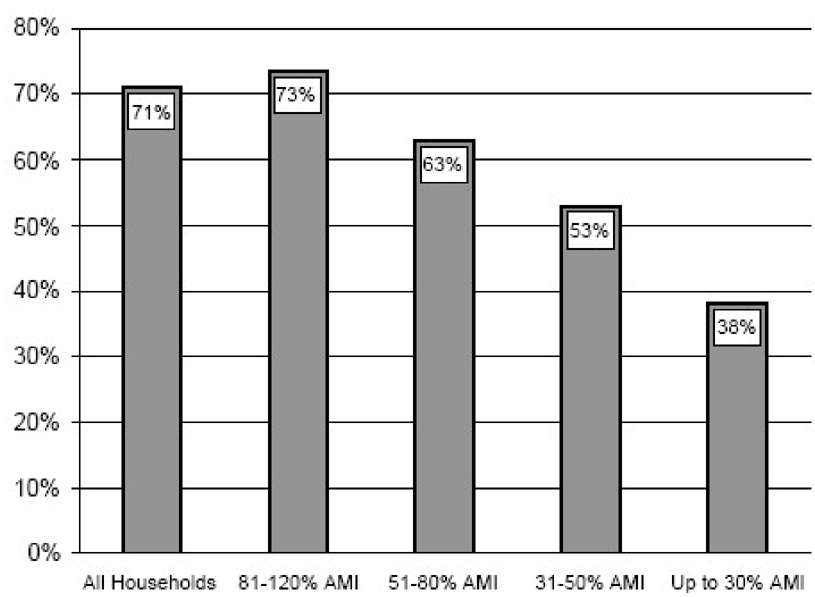
According to the 2000 Census, the homeownership rate for white households in Indiana is 75 percent. In comparison, the homeownership rate is 45 percent for African-American households, 46 percent for Asian-American households, 48 percent for Hispanic households, and 57 percent for American Indian households.

Low-Income Households

A household's income level also impacts its likelihood of owning a home. Households with incomes from 81 to 120 percent of Area Median Income enjoy a homeownership rate of 73 percent, higher than the Indiana average.

However, as incomes decline, so do homeownership rates, as illustrated in Chart 2. Only 63 percent of households with incomes between 51 and 80 percent of AMI are homeowners, as are 53 percent of households with incomes between 31 and 50 percent of AMI, and 38 percent of households with incomes below 30 percent of AMI.

Chart 2. 2000 Homeownership Rates by Income Level



In addition, more than 158,000 low-income homeowner households in Indiana are cost-burdened, meaning that they spend more than 30 percent of their incomes to pay for their mortgage, taxes, and insurance.[xxvii] This means that in Indiana, a higher percentage of low-income homeowner households are cost-burdened than low-income renter households.

However, only 19 percent of white owner-occupied households are cost-burdened, compared to 22 percent of Hispanic owner-occupied households and 29 percent of African-American owner-occupied households.[xxviii] Similarly, 23 percent of all homeowner households in Indiana are cost-burdened, but the rate is even higher for homeowner households with a disability—44 percent.[xxix]

Foreclosure Rate

When mortgages are unaffordable, the likelihood of foreclosure increases. Homeowners who are already cost-burdened and teetering on the margins of affordability can easily lose their homes when disaster strikes in the form of a reduction in income, a large unexpected expense, or a major life shift such as divorce.

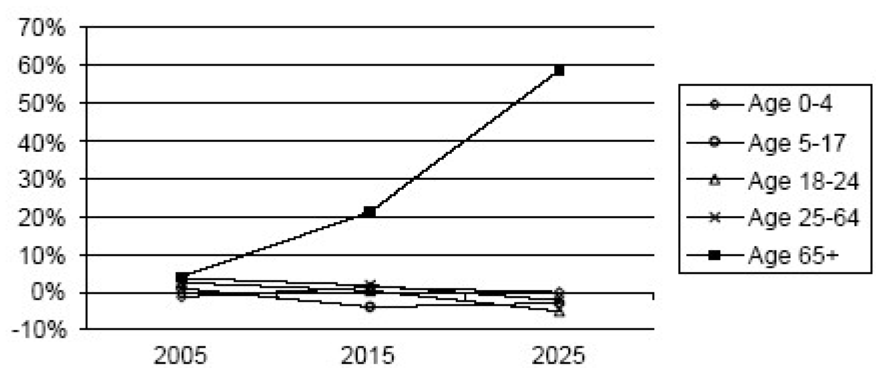
In Indiana, foreclosure has become a significant issue in recent years. First-quarter 2006 data from the national Mortgage Bankers Association ranks Indiana's foreclosure rate at .98 percent, the highest in the nation and more than double the national rate. During the same time period, 2.75 percent of all mortgage loans in the state were past due, second only to Ohio at 3.22 percent.

At many points during the last four years, Indiana has had either the highest or the second-highest foreclosure and default rates in the country. In the last quarter of 2005 alone, more than 7,000 Indiana homeowners were facing foreclosure.

Serving the Housing Needs of Seniors

In 2005, approximately 800,000 Hoosiers are 65 or older. By 2025, the senior population will have soared to 1.25 million, accounting for one in every five Hoosiers. In fact, persons over 65 represent the only age cohort projected to increase in Indiana over the next twenty years, as illustrated in Chart 3.

Chart 3. Projected Population Growth of Indiana Residents, By Age Cohort, 2005 - 2025



In addition, in recent surveys of its membership, AARP reports a growing trend for seniors' desire to age in place. This national data is confirmed in survey results compiled for Indiana's 2005 Consolidated Plan.

Taken together, these social phenomena have significant implications for the future demand for housing resources for Indiana's senior population.

Rising Utility Prices

Hoosiers are using more energy—and costs are rising. Eighty percent of Indiana residences are heated with a source other than electricity. The average annual kilowatt hours used by these consumers is expected to increase by about fifty percent between 2001 and 2021.[xxx]

At the same time, the price of oil and natural gas is rapidly increasing. Wholesale gas prices are roughly double where they were only a few years ago, and many economists expect this trend to continue for years to come. These cost increases not only affect Hoosiers using oil and gas to heat their homes; they also impact the price of electricity, as the use of natural gas for electric power production has been rising at a rate of 7 to 8 percent per year since 2000.[xxxi]

In short, rising utility costs are likely to have an increasingly severe impact on consumers. This will be particularly true of low and very low-income Hoosiers who already have a tight budget. It will also negatively affect nonprofit agencies that operate low-income rental housing complexes in which they, as the owner, are responsible for utility costs.

V. Quantifying the Demand

How Much Affordable Housing Is Needed?

Understanding the external trends that impact the demand for affordable housing helps us identify where additional resources are most urgently required and what it will cost to meet Indiana's housing needs. While Indiana's housing costs have not grown exponentially relative to other states, the relative affordability of housing as it relates to income remains problematic for low-income Indiana households. The calculations of need in this report are based on the number of cost-burdened households in Indiana—those low-income families who spend more than 30 percent of their incomes on housing.

Later, we will discuss many innovative and valuable programs that could bring significant benefit to the state if they were to be implemented. First, though, we will begin with an estimate of the costs involved in meeting the most basic housing needs.

Housing Units for the Homeless

Previous efforts to calculate the number of housing units needed for people experiencing homelessness have relied on actual counts of the homeless and extrapolations based on these counts. In recent months, new methodology developed for HUD proposes a different approach. This methodology seeks to characterize "unmet need" in terms of the optimal housing solution for the person or family experiencing homelessness. It asks providers to determine if emergency shelter, transitional housing, or permanent supportive housing is the best housing solution for a particular client. Based on responses from providers, the number of additional needed units in each category is determined.

This philosophy borrows from Housing First principles, which are rooted in the premise that vulnerable and at-risk homeless families are more responsive to interventions and social service supports after they are in their own housing, rather than while living in emergency facilities. Therefore, not surprisingly, most survey responses show an increase in the need for transitional and supportive housing units. These are typically more expensive to develop than emergency shelter units.

Using the new methodology, the Indiana Coalition on Housing and Homeless Issues has identified a need for an additional 3,600 transitional and permanent supportive housing units.

Affordable Rental Housing Units

Table 1 outlines the number and percentage of cost-burdened Indiana households at a range of income levels. It is estimated that a total of 239,347 low-income Hoosier families are cost-burdened and in need of affordable rental housing.

Table 1: Cost Burden by Income of Low-Income Indiana Householders Who Pay Cash Rent, Renters, 2002[xxxii]				
Percent of Median Household Income[xxxiii]	*Annual Income (Maximum)*	*Number of Renters*	*Number of Cost-Burdened Renter Households*	*Percent of Cost-Burdened Renter Households*
Less than or equal to 30 percent	$12,390	152,442	118,260	78 percent
31 - 50 percent	$20,650	106,856	82,447	77 percent
51 - 80 percent	$33,040	135,632	38,667	29 percent
Total Renter Households	**--**	**394,930**	**239,347**	**60 percent**

Homeownership

Coming up with a number to represent the precise need for homeownership assistance is not simple. For a comprehensive estimate, we would need to guess at the number of low-income renters who would like to buy a home, and then estimate how many of them need assistance in order to purchase a safe, affordable home that is large enough to accommodate their family.

Instead, we will estimate the homeownership gap based on homeownership rates for households by income levels. As income levels increase, so do homeownership rates. Therefore, in an effort to set a reasonable benchmark, we calculated the homeownership gap for each income level based on the number of new homeowners that would be needed to raise the homeownership rate for that income level to the next higher level, up to 120 percent of Area Median Income.

For example, the homeownership rate for households below 30 percent of AMI is 38 percent. Our goal would be to raise this rate to 53 percent, which is the homeownership rate for households between 31 and 50 percent of AMI. Our focus is on households at or below 80 percent of AMI, because the Development Fund must, by statute, serve exclusively households at that income level.

Table 2 illustrates these calculations, which show a total homeownership gap of 109,715 low-income households.

Table 2: Low-Income Homeownership Gap By Income Level					
	All Households	**81-120% AMI**	**51-80% AMI**	**31-50% AMI**	**Up to 30% AMI**
Number of Households	2,336,306	415,936	482,038	300,694	190,933
Existing Homeownership Rate	71%	73%	63%	53%	38%
Number of Homeowners at Existing Homeownership Rate	1,685,777	305,702	302,693	159,019	72,711
Number of Homeowners If Homeownership Rate Were At Next AMI Level	--	--	354,298	188,836	101,004
Homeownership Gap at Next AMI Level Homeownership Rate	--	--	**51,605**	**29,817**	**28,293**
Total Income-Based Homeownership Gap	**109,715**				

VI. Quantifying the Cost: Defining the Funding Gap

Current vs. Future Needs

Calculating the cost of today's affordable housing needs in Indiana is relatively straightforward. However, as we envision a future in which every Hoosier has access to safe and affordable housing, we must plan not only for today, but for tomorrow as well.

Why is this important? Estimating the resources that would be required to meet Indiana's *current* affordable housing needs does not allow for any increase in the number of people needing affordable housing in the future. The trends affecting affordable housing today will almost certainly result in an even higher demand for affordable housing in the years to come.

Setting Realistic Targets

We also recognize that it will not be possible to meet all of Indiana's housing needs right away. We would do better to choose a reasonable target—a time period during which it is realistic to believe that with the appropriate resources and the right priorities, we can fill Indiana's affordable housing gap.

In gauging that timeframe, we should consider existing housing regulations that impact affordability. For instance, Indiana's existing Affordable Housing and Community Development Fund regulations require that multi-family rental projects, such as apartment buildings, remain affordable for 15 years. That is, the owners of these projects must keep these rents at levels that are affordable to low-income Hoosiers for at least 15 years before the rents can be increased to market rate.

However, Indiana's current affordable housing needs are far too large to be realistically met in such a short period of time. We believe that a more conservative approach will be more appropriate for achieving Indiana's affordable housing goals. In other states and localities, the majority of housing trust funds set long-term affordability requirements of up to 30 years. For this reason, and so that we may be as conservative as possible in estimating how long it will take and how much it will cost to meet Indiana's affordable housing needs, we will use the 30-year standard in making our estimate of funding needs.

Basic Costs: Housing for the Homeless

To estimate the cost of meeting Indiana's housing needs for people experiencing homelessness, we can simply use our earlier estimate of the number of housing units needed, and multiply them by the average per-unit development funding currently provided through IHCDA's housing programs. Table 3 portrays the estimated costs for Indiana's current and future homeless housing needs over 30 years.

Table 3: Cost to Meet Current and Future Emergency Shelter/ Transitional Housing Needs			
Number of Units Needed	*Assistance Per Unit*	*Current Cost*	*Future Cost (assumes 3 percent annual increase in assistance over 30 years)*
3,600	$24,919[xxxiv]	$89,708,000	$142,263,000

Basic Costs: Rental Housing

For rental housing, the process of estimating costs is more complex. There are two primary ways of making rental housing more affordable. The first is to provide financial assistance that directly offsets the cost of rent. This is called *rental subsidy* or *rental assistance.* Rental assistance programs, such as Section 8 and others, pay the difference between the market-rate rent for a housing unit and the amount that is actually affordable to the renter. For instance, by using a rental subsidy, a low-income family that can afford to pay $300 a month in rent could live in an apartment that costs $500 a month on the open market. The rental subsidy program pays the $200 difference. Rental subsidies are renewable annually, and there is no time limit on how long a household may qualify.

The second way to make rental housing more affordable is to build new units of housing using a *development subsidy*. Development subsidies help pay for the construction of new housing units that are specifically intended for rental by low-income families. Because development subsidies pay for a portion of the construction costs, the overall debt that is carried by a property—such as the mortgage that it pays to the bank—is reduced. This means that the property can generate a lower amount of monthly rental revenue and still stay "in the black." In other words, the property can afford to charge lower rents to its residents because its expenses are also lower. In turn, the residents must be people of low income who meet the property's income guidelines.

Housing units that are built using development subsidies are required to keep their rents at affordable levels for a certain time period, called the *affordability period.* This ensures that new affordable housing units stay affordable for many years. Many development subsidies require an initial affordability period of at least fifteen years. Other development subsidies can require an affordability period of thirty years or more, depending on the funding source.

Rental Housing: Refining Estimates of Need

We do know that some existing affordable rental housing is not currently being used. An analysis of vacancy rates for IHCDA's affordable rental portfolio shows that 12.5 percent of these units experienced vacancy in 2003 and 2004. In order to make as conservative a cost estimate as possible, we will make the substantial assumption that the vacant units are located in the same geographic areas as the households in need, and that these households could therefore easily access this available housing.

In addition, nationwide statistics have found that about 11 percent of Section 8 rental assistance vouchers turn over each year.[xxxv] We will assume that the same ratio applies to Indiana, and that 100 percent of vouchers that have become available through turnover are assigned to the existing cost-burdened renter households we have already identified.

By factoring in all of the above assumptions, and utilizing funding and unit production data from 2000-2004, we arrive at a conservative calculation of the annual cost of meeting Indiana's affordable rental housing needs. The calculations are based on the actual proportion of rental-subsidized versus development-subsidized units in Indiana. Examining the portfolio of units proportionally revealed that the breakdown of rental-subsidized units to development-subsidized units is 60 percent to 40 percent, respectively. This ratio was applied to the number of cost-burdened renter households, assuming that 60 percent of these households would be housed using direct tenant subsidy and 40 percent with development-subsidized units. The details of this calculation may be found in Appendix G. Table 4, below, provides a breakdown of rental subsidy costs versus development subsidy costs, and the total annual cost: $11,910,715,000 per year.

Again, though, we must consider not only current costs, but also how those costs are expected to change over the long term—in this case, our 30-year timetable. Table 4 also shows the future costs of meeting Indiana's affordable rental housing demand.

Table 4: Cost to Meet Current and Future Affordable Rental Housing Needs

Subsidy Type	*Number of Units Needed*	*Assistance Per Unit*	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*
Rental Subsidy	127,246	$56,615	$7,204,032,000	$11,424,494,000
Development Subsidy	84,328	$55,814	$4,706,683,000	$7,464,080,000
Total Rental Need	**211,574**	**--**	**$11,910,715,000**	**$18,888,574,000**

Basic Costs: Creating Equity in Homeownership Rates

As with rental housing, there are two ways to help low-income Hoosiers become homeowners: through direct homebuyer subsidies (such as down payment assistance), and through development subsidies that lower the cost of building a home to be purchased by a low-income family. To estimate the total costs, a logic model was developed similar to that used for rental housing cost estimates, using historical data to approximate per-unit costs. The details of this calculation are located in Appendix H.

Table 5 provides a summary of current and future homebuyer and development subsidy costs.

Table 5: Cost to Meet Current and Future Affordable Homeownership Needs

Subsidy Type	*Number of Units Needed*	*Assistance Per Unit*	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*
Homebuyer Subsidy	91,990	$4,236	$389,670,000	$617,957,000
Development Subsidy	17,725	$32,273	$572,039,000	$907,166,000
Total Homeownership Need	**109,715** [xxxvi]	**--**	**$961,709,000**	**$1,525,124,000**

Gross, Lump-Sum Subtotals

Table 6 summarizes the calculations made in the previous sections and provides a comprehensive snapshot of Indiana's housing needs and their associated current and future costs. However, it is important to note that these are gross costs only. They do not include existing funding. In addition, they assume that all costs would be paid in one lump sum, rather than over time. The actual estimated annual costs are significantly lower, as we will describe in the sections to follow.

Table 6: Gross Cost to Meet All Current and Future Affordable Housing Needs

Housing Type	*Number of Units Needed*	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*
Housing for the Homeless	3,600	$89,708,000	$142,263,000
Rental Housing	239,347	$11,910,715,000	$18,888,574,000
Homebuyer	109,715	$961,709,000	$1,525,124,000
Total Need	**352,662**	**$12,962,132,000**	**$20,555,961,000**

Offsetting the Costs: Existing Funding Resources

Therefore, Indiana has a demand for nearly $13 billion in current dollars—or $432 million per year for 30 years—to ensure that Hoosiers' basic housing needs are met. However, this does not mean that $13 billion in new money is needed. In fact, a portion of this funding may be provided through a range of resources that are currently available, as described in Table 7. This table includes funding for all construction-related activities, down payment assistance, housing counseling, and subsidized home loans.

Table 7: Funds Available Annually for Construction, Housing Counseling, and/or Down Payment[xxxvii]	
Programs	*Annual Funds*
U.S. Department of Housing and Urban Development (HUD) Programs	
HOME Investment Partnership Funds	$13,805,000[xxxviii]
Community Development Block Grants (CDBG)	$5,761,000[xxxix]
Tax Credits (Equity Generated)	$113,774,000[xl]
Multi-Family Bonds	$41,239,000[xli]
Housing Opportunities for People With AIDS (HOPWA)	$800,000[xlii]
Incremental Section 8 (HANF)	$3,600,000[xliii]
Section 202	$10,100,000[xliv]
Section 811	$4,000,000[xlv]
American Dream Downpayment Assistance	$945,000[xlvi]
HUD Housing Counseling Grants	$425,000[xlvii]
Continuum of Care (Bricks and Mortar)	$449,000[xlviii]
U.S. Department of Agriculture (USDA) Rural Development Programs[xlix]	
Section 504	$1,240,000
Section 515	$2,900,000
Housing Preservation Grants	$140,000
Federal Home Loan Bank of Indianapolis Programs	
Affordable Housing Program	$2,400,000[l]
Homeownership Opportunities Program	$750,000[li]
Home Savings Program	$850,000[lii]
Other Programs	
Habitat for Humanity of Indiana	$13,560,000[liii]
Neighborhood Assistance Program (NAP) Tax Credits	$1,160,000[liv]
Total	**$217,898,000[lv]**

Estimating The Funding Gap

Now that we have established the likely costs and the existing resources, we can estimate with some precision the gap between how much Indiana would need to invest in affordable housing over the coming years, and how much of that investment could potentially come from other sources. The resulting figure is the amount that could be filled by resources from the Affordable Housing and Community Development Fund, if it had enough income.

Table 8: Gap in Current and Future Affordable Housing Resources

Total Annual Investment Required to Meet the Need	*Current Cost*	*Future Cost (assumes 3 percent annual increase over 30 years)*	*Percentage*
	Total Current Cost $12,962,132,000	*Total Future Cost $20,555,961,000*	
Average Annual Investment	$432,071,000	$685,199,000	100%
Average Annual Funding From Existing Resources	$217,898,000	$345,553,000[lvi]	50.5%
Estimated Leverage from Private Industry and Philanthropy	$144,744,000	$229,542,000	33.5%
Annual Development Fund Gap	**$69,429,000**	**$110,104,000**	**16%**

It is important to note that this gap is only the money required to meet Indiana's emergency and rental housing needs, and to meet the needs of the emerging homebuyer markets that we have discussed. It does not represent the funds needed to provide owner-occupied rehabilitation, provide families with housing counseling, or implement any other innovative, non-construction funding programs, as described in the Development Fund Advisory Committee's programmatic recommendations.

The Bottom Line: Public vs. Private Share of the Funding Gap

However, this gap is a raw number that needs further refinement. Of the existing resources in the table above (including public, private, and philanthropic), about 60 percent come from public sources. The remaining 40 percent come from private and philanthropic sources.

This leads us to the logical conclusion that the funds needed to fill the gap would likewise come from a variety of sources, and not from a single source. If we expect that the Development Fund would receive 60 percent of the additional resources it needs from public sources, then our final Development Fund gap breaks down as shown in Table 9.

Ultimately, we estimate that $41 million in new public funds is needed each year to meet Indiana's affordable housing needs.

Table 9: Breakdown of Development Fund Gap by Resource Type		
Type of New Funds	*Current Gap*	*Future Gap (assumes 3 percent annual increase over 30 years)*
Total	$**69,429,000**	**$110,104,000**
New Private and Philanthropic Funds	$27,772,000	$44,042,000
New Public Funds	$41,657,000	$66,062,000

Meeting the Funding Gap

The Advisory Committee recognizes that the funds to fill this gap will not come from a single source. However, a dedicated, reliable stream of funding is essential to address Indiana's systemic housing needs. The Advisory Committee has prepared an extensive list of potential revenue sources and the dollars that each would be expected to generate, and has made specific recommendations as to which are the most viable. In the following section, we discuss the Development Fund Advisory Committee's recommendations as to how the funding gap can be closed. Investments from private sources will be targeted, and contributions to the Development Fund from IHCDA itself are also expected. These will help meet a portion of the need.

Who the Development Fund Helps: Matthew and Suzanne Green,* Lafayette

Matthew and Suzanne Green and their children were struggling when they submitted their application to Habitat for Humanity of Lafayette. Their housing was unaffordable and their income was low. Matthew worked at Purdue University as a storeroom clerk, and Suzanne's work options were limited, since she didn't have a high-school diploma. "Their housing situation was keeping them from realizing their potential as people and contributing to society," recalls Doug Taylor, Executive Director of HFH of Lafayette.

The affordable housing solution that Habitat provided reduced the burden on the Greens to seek supplemental income to support their prior unaffordable housing situation. With the reduction in housing costs that the Habitat home created, Ms. Green was able to focus on being a mom to her kids and earning her GED and postsecondary degrees, including a bachelor's degree in education—and eventually, a master's degree as well. Today, she is a teacher, and she and Matthew have watched their own children go to college.

"Habitat houses are so cost-effective that most families go from paying $600-700 in rent to making a $300 house payment. That frees up quite a bit of income—and families can do great things with that money," Taylor says.

He also notes that Habitat's work impacts the whole community, not just homeowners. "We've built 130 houses," he explains. "We've brought up property values. We demolished 47 houses that were boarded up—not on the tax rolls—and built new houses that are on the tax rolls. Our homeowners have contributed about $300,000 of property taxes back to the community. The neighborhoods are safer, and we've brought a sense of community back."

Taylor says HFH of Lafayette has the capacity to build 20 houses a year. In 2006, he says, "we will build probably 14 houses. We could do a lot more if we had access to additional funds."

**Names changed for privacy*

VII. Recommendations: Sources of Revenue

The Advisory Committee of Indiana's Affordable Housing and Community Development Fund is charged with the responsibility of preparing recommendations with regard to the policies and procedures of the Development Fund, and with regard to securing a long-term source of revenue.

In all, the Advisory Committee considered 24 potential revenue sources. The Committee gave substantial thought to each option in determining which were viable and which were not. In large part, the recommendations made by the Advisory Committee reflect a series of central philosophies:

- **Sharing responsibility.** Housing trust funds typically receive a mix of public, private, and philanthropic funding. (Appendix B contains a list of funding sources utilized by other trust funds across the country.) As the Advisory Committee sought to identify a stable source of revenue for Indiana's Development Fund, it became clear that a similar blend of funds will be required here. Public and private entities will need to join forces and share the investment required to meet Indiana's affordable housing goals.

  The need for safe, quality, affordable housing is so large that no one source of funding is likely to be sufficient. Therefore, just as the developer of an affordable housing project must piece together funding from many different sources to get the development off the ground, we expect that the Development Fund will also need to assemble multiple revenue streams. The Advisory Committee incorporated this line of thought into its consideration of each of the potential revenue streams.

- **Impact and effectiveness.** The Advisory Committee gave preference to those options with the potential to provide the most "bang for the buck". Some of the revenue sources would have required far more input of time, energy, and resources than they were worth. Instead, the Committee sought to identify where the smallest amount of resources could provide the most significant returns. The Committee also considered the potential scope and scale of each option, giving higher priority to those that could generate funding at levels sufficient to have a measurable impact.

- **Relevancy and germaneness.** The Advisory Committee believes that any funding source for the Development Fund should have a clear link to the housing and real estate industries. Some options were therefore rejected because their relationship to housing was not strong enough.

The Role of Local Housing Trust Funds

In its analysis of potential revenue sources, the Advisory Committee also considered the presence of local housing trust funds (Indianapolis, Bloomington, and Ft. Wayne all have such trust funds). Depending on the source of funds being considered for the state's Development Fund, portions of some potential revenue streams might be shared with local housing trust funds.

In addition, because of the rules governing their oversight, some revenue sources are more appropriate for local trust funds than for a statewide fund. The Advisory Committee did not include these options in its list of potential statewide revenue sources because these revenues are controlled at the local level, despite needing state legislative approval for implementation.

Revenue Recommendations: New Revenue Streams

Using the three broad guidelines described above, the Advisory Committee narrowed the field substantially from the initial group of 24 revenue options. Their final recommendations include the four items below, each of which would create new revenue streams for the Development Fund. See Appendix I for details on other revenue sources not discussed here.

Again, the Advisory Committee recognizes that it is unrealistic to expect that any single entity will be able to completely fund Indiana's affordable housing needs. Some entities, however, are likely to play a larger role than others, and the Advisory Committee believes that the support of the State of Indiana will be essential in building the momentum needed to achieve our housing goals.

Action from the Indiana legislature would be necessary to implement any of these options. Members of the legislature will make the ultimate determination as to which, if any, of the following options come to fruition.

Make the necessary technical changes to allow the Development Fund to accept investments. *Requires legislative approval.*

Establishing a program to seek out private and philanthropic investors in the Development Fund requires legislative authority. Under the statute as it existed at the time of the Advisory Committee's analysis, the sources of funds available to the Development Fund were (IC 5-20-4-7):

- Appropriations from the General Assembly,
- Gifts and grants to the Fund,
- Investment income earned from the Fund's assets,
- Repayments of loans from the Fund, and
- Funds borrowed from the Indiana Board for Depository Institutions (PDIF).

Gifts or grants can be made to the Development Fund, and the Development Fund can earn money by investing its assets. However, at the time of the Advisory Committee's analysis, Indiana statute did not allow the Development Fund to accept loans or investments (except from PDIF) and use those loans to raise income. Thus, before such an investment program could be pursued, it was necessary to receive legislative authority. With this authority, Indiana could solicit investments from a range of sources, thereby leveraging private as well as public resources.

<u>Viability</u>
This strategy has already been accomplished. IHCDA successfully obtained authority for the Development Fund to seek private and philanthropic contributions during the 2006 legislative session, as part of a larger set of technical changes to the Development Fund statute in House Bill 1261.

<u>Estimated Revenue</u>
There is no clear way to estimate revenues for this funding option. Revenues will depend on how aggressively investments are pursued.

Apply a surcharge to document processing fees. ***<u>Requires legislative approval</u>.***

A real estate document processing fee could be instituted to support affordable housing in Indiana. This would represent a steady, highly germane source of resources for affordable housing at minimal cost to consumers.

Policymakers could have substantial flexibility as to what such a fee might be called and how it would be structured. For instance, the surcharge could be specifically labeled as an "Affordable Housing Fee" to limit the possibility that other, less germane fees could be added at a later date.

<u>Viability</u>
A document processing fee has definite advantages as a potential source of revenue for the Development Fund. First, it has a clear connection to the housing and real estate market. Second, the fee places a very small financial burden on each homebuyer. It is not an impediment to purchasing a home, and there is no risk of such a small fee slowing economic development. Finally, since there is already a fee in place to record documents, an additional surcharge would create very few administrative costs.

Other states have had strong success with document processing fees. The state of Ohio received national attention when it doubled most of its recordation fees in 2003, which has generated $50 million a year for its trust fund as well as about $30 million for its general fund. The fee increase was supported by a large group of housing industry professionals, perhaps most notably by the Ohio Association of Realtors. The Missouri Housing Trust Fund is financed through a $3 recording fee on all real estate-related documents filed in the state. This raises approximately $4 million a year. Washington State has a $10 surcharge on all real estate-related documents recorded by counties in the state, generating approximately $20 million a year.

Recent legislative precedent suggests that this is a viable proposal in Indiana. In 2004, the Home Owner Protection Act was signed into law. While its primary focus was to prevent predatory lending, it also included a provision that levied a $3 surcharge on all mortgages recorded in the state. Fifty cents of this fee goes to the county recorder; $1.25 funds a homeownership protection unit in the State Attorney General's office; and the remaining $1.25 goes to the state general fund.

The fee itself was not the central focus of this bill. However, the fact that it was included in the final version, and that a portion of the funds were dedicated to housing issues, is evidence that the opposition to such a fee is not insurmountable. However, under this Act the $3 fee is only applied to mortgages recorded in Indiana, whereas programs in other states apply the fee to all real estate-related transactions. A proposal for a surcharge on all real estate-related transactions could generate concerns about administrative capacity from county recorders.

To address this issue, the state could consider allowing counties to keep a larger administrative fee to offset any increased costs for recorders.

Estimated Revenue

Based on a survey of twenty of Indiana's most populous areas, we estimate that approximately 1 million documents were recorded across the state in 2005. About 23 percent were deeds; 37 percent were mortgages; 34 percent were releases and assignments; and 6 percent were for other transactions.

Using this data, we estimated the total revenues that would be generated with a range of surcharges and per-page fees on recorded documents, as illustrated in the table below. A portion of these revenues would likely be returned to counties as an administrative fee.

For the typical home mortgage transaction, these surcharges would add $20 to $60 to closing costs.

Table 10: Estimated Revenues from Document Processing Surcharges

		Per-Page Surcharge		
		$0.50	**$1**	**$2**
Flat Processing Fee Surcharge	**$5**	$8,630,000	$12,260,000	$19,520,000
	$7	$10,630,000	$14,260,000	$21,520,000
	$10	$13,630,000	$17,260,000	$24,520,000

Utilize a portion of the increase in sales tax revenues collected on building materials above a base year. ***Requires legislative approval.***

In 2002, Indiana collected $2.23 billion in sales taxes for the General Fund (and $1.57 billion in sales taxes for dedicated funds). These taxes were charged on a wide range of consumable goods, including building materials. It might be possible to have a small percentage of the sales taxes collected on the purchase of residential building materials transferred to the Development Fund.

Viability

In this scenario, a base year would be chosen, and the amount of sales taxes collected on building materials for that year would be determined. This amount would continue to go to the General Fund, but a percentage of additional sales taxes over the base amount collected from that source in future years would go to the Development Fund.

There are several advantages to such a proposal. First, this is a housing-related revenue source. Money paid in taxes to buy building materials would be used to finance the construction of affordable housing. Second, it does not constitute a new tax or fee, so it is less likely to generate opposition from home builders. In fact, this could be a revenue source that builders would actively support. On the other hand, in this period of tight budgets, it may be difficult to dedicate even a small part of an existing revenue source to the Development Fund.

Estimated Revenue

To establish an accurate estimate of potential revenues from this source, it would be necessary for the Indiana Department of Revenue to code and track sales taxes paid on building materials for a period of time. This process has begun, though the data does not yet appear to be publicly available. However, we may still create a rough revenue estimate.

Indiana's median sales price on new homes in 2003 was $109,553. That year, the state issued 39,420 building permits for the construction of new homes. Building materials account for about 30 percent of the cost of a new home. Contractors thus spent about $1.34 billion on building materials for new construction in 2003. At a tax rate of 6 percent, they paid about $80 million in taxes on building materials. From 1990 through 2003, funds spent on residential construction increased by an average of 8.2 percent per year. Using these figures as a starting point, we can make the following revenue estimates. While revenues start out relatively low, they will increase steadily as construction costs go up.

These figures represent only the estimated revenue related to new home construction. Additional revenue would be generated if the same mechanism were applied to sales tax collected on all residential construction work, including rehabilitation of existing structures.

Table 11: Estimated Revenues from Sales Tax on Building Materials

Year	Sales Tax Collected on Building Materials	Increased Collections Over 2007 Base Year	Percent of Increased Sales Tax Collections Transferred to Development Fund		
			5 Percent	10 Percent	20 Percent
2003	$80 million	N/A	N/A	N/A	N/A
2007	$110 million	N/A	N/A	N/A	N/A
2008	$119 million	$9 million	$450,000	$900,000	$1,800,000
2011	$150 million	$40 million	$2,000,000	$4,000,000	$8,000,000
2015	$206 million	$96 million	$4,800,000	$9,600,000	$19,200,000
2020	$305 million	$195 million	$9,770,000	$19,545,000	$39,090,000

Implement a surcharge on the issuance of all local government bonds in Indiana. ***Requires legislative approval.***

Bonds are a common financing tool utilized by both state and local governments. They can range in size from less than a million to several hundred million dollars. A small surcharge could be added to each bond issue in Indiana as a way to raise money for the Development Fund.

Viability

Since Indiana's current total bond volume is approximately $2.5 billion, even a very small surcharge (in the range of .25 percent to 1 percent) would provide a significant portion of the funds required to fill Indiana's affordable housing gap.

Any attempt to impose an additional surcharge on the issuance of local government bonds is likely to be strenuously opposed by local governments, school corporations, and correctional facilities. However, it might be possible to effectively argue that by setting aside more money for affordable housing the surcharge will save these groups money in the long run.

The basis of such an argument would be that access to safe, quality, affordable housing can lead to greater stability among low-income families with children, ultimately leading to better school performance, improved health, and lower rates of criminal activity, as described in Section III of this report. While this research is not definitive, it does point to a potentially useful argument for securing a small percentage of the bond funds that might otherwise go to local governments, schools, and correctional institutions.

Estimated Revenue

According to a Summary of Outstanding Debt published online by the Indiana Bond Bank,[lvii] in 2003 and 2004 there were, respectively, $2.468 billion and $2.635 billion in bonds issued in Indiana. The surcharge would need to be a very small percentage of overall bond volume in order for it to be palatable. However, even a small surcharge could go a long way toward meeting Indiana's affordable housing needs.

Table 12: Estimated Revenues from Local Government Bond Surcharge

Total Bond Volume	Surcharge as a Percentage of Bond Volume			
	0.25 Percent	0.5 Percent	0.75 Percent	1.0 Percent
$2,500,000,000	$6,250,000	$12,500,000	$18,750,000	$25,000,000

Revenue Recommendations: Utilizing Previous Revenue Streams

Issuance of Bonds. ***Requires legislative approval.***

In 1993, IHCDA was authorized to issue $5 million in bonds payable on behalf of the Development Fund to be purchased by the Indiana Board for Depository Institutions (PDIF), issued in increments of at least $500,000. Of the $5 million, $1.2 million was used to purchase a $5 million zero coupon US Treasury Strip maturing in 2013, which will be used to repay the PDIF loan. After this purchase and legal fees, the Development Fund was able to utilize approximately $3.8 million for investment in affordable housing.

Viability

As another means of resourcing the Development Fund, IHCDA could seek authority to issue additional bonds for the same purpose. While this is not a strategy that could be implemented every year, it could provide for periodic infusions of funding into the Development Fund. If this approach is used, it will be important to strike a balance between Indiana's immediate and urgent housing funding needs, and the financial risk of taking on the multi-year commitment until the loans are paid off.

Estimated Revenue

The estimated revenue would be approximately the same as that raised in 1993. If IHCDA took out a $5 million bond, and purchased a zero-coupon U.S. Treasury Strip to repay the bond, then the amount raised could be approximately $3.8 million.

IHCDA Funding. ***Legislative approval not required.***

Since the Development Fund's inception, IHCDA has provided a total of $6.5 million in capital to the Fund. IHCDA remains strongly committed to the Development Fund, and expects to continue its support in the form of annual contributions, as funds and circumstances permit.

At the time of this report, IHCDA planned to commit $500,000 per year to the Development Fund.

Revenue Estimates

Appendix J contains estimates of the revenues that could be generated on an annual basis for many of the options that were considered by the Advisory Committee. Details on how these revenue estimates were developed are located in Appendix I.

VIII. Recommendations: Programmatic Options

The Advisory Committee considered many types of services and projects that the Development Fund could support. These include both traditional affordable housing infrastructure and also a number of innovative programs.

It is important to note that the statute establishing the Development Fund allows for broad programmatic coverage. Therefore, while the proposals of the Advisory Committee represent examples of types of programs that could be funded, they are not meant to imply an exclusive list. A complete summary of these proposals is contained in Appendix K.

The Advisory Committee recognizes that these programmatic options are very diverse. Each has value, and so recommending one particular option over another is difficult. In addition, the Advisory Committee understands that over time, the most pressing housing priorities may change, depending on the external trends that are taking place.

Therefore, rather than making specific suggestions as to which program(s) should be of highest priority for the Development Fund, the Advisory Committee has issued the following broad, far-reaching recommendations:

Program Recommendations: Categorization of Programs

The Development Fund should establish three or four different categories for funding applications, which could include, but are not limited to, the following:

- Bricks-and-mortar/rental assistance.
- Supportive services.
- Operating support.
- Creative/innovative projects.

Each category could be allotted a certain percentage of the available funds.

Program Recommendations: Public Input on Priorities

The Indiana Housing and Community Development Authority, which administers the Development Fund, should consider a bi-annual information-gathering process for the Development Fund that would be similar to that of the Qualified Allocation Plan, or QAP. The QAP process is used to obtain public input on how the current pool of Low-Income Housing Tax Credits should be spent and where priorities should be placed for the coming years. Implementing a similar process for the Development Fund would offer an opportunity for public input. It would allow the Advisory Committee to set out funding priorities for a two-year period and respond to changes in funding needs.

Program Recommendations: Supportive/Gap Financing

The Development Fund should never be the primary source of funding for either a project or an agency. Money from the Development Fund should serve as gap financing—that is, to assist a housing project with an interim loan between the development stage of the project and the point at which the project receives its final mortgage.

Program Recommendations: Further Research

IHCDA should continue to refine the research already completed with regard to the programmatic priorities of the Development Fund to gather additional data on housing needs in Indiana. If necessary, this could involve using some of the money currently in the Development Fund to hire an outside agency or university research center to conduct a study of housing needs in the state.

IX. Conclusion: A Valuable Return on Indiana's Housing Dollar

In this report, we have determined that an additional $41 million per year in new public funding is needed to fill Indiana's affordable housing funding gap. That is a substantial public investment—but it would also generate sizeable returns. As described earlier, every dollar invested in Indiana's Development Fund has leveraged an additional $5 in other funds. The $20 million invested to date has resulted in 1600 new jobs, $52 million in new wages, and $83 million in income for other industries.

And investing in affordable housing isn't just an economic stimulus—it's also a proactive fiscal strategy. Supporting affordable housing on the front end can save millions of dollars later on.

In this section, we illustrate the cost-benefits of investing in affordable housing through three examples that are of particular relevance to Indiana today. The Development Fund could invest in all of these areas, and more—if it had the resources to do so.

Helping Seniors Age in Place

- According to the American Association of Homes and Services for the Aging (AAHSA), the average daily cost of a private room in a nursing home in the United States is $203 per day, or $74,095 annually.

- AAHSA also reports that the national average monthly base rate for an individual residing in an assisted living facility is $2,524, or $30,288 annually.

- Indiana's Family and Social Services Administration has set a goal of moving 1,500 nursing home residents into lower-cost, supportive community living situations in the next twelve months.

Approximately 47,000 Hoosier seniors live in nursing homes.[lviii] Of these, about 26,000 use Medicaid.[lix] According to an Illinois study, 20 percent (5,200) are likely receiving excess services that they do not need based on their level of independence. The Indiana Department of Aging will release a report in July containing estimates of savings that could be realized for this population by shifting from nursing home care to lower-cost, supportive community living.

Asset Preservation: Preventing Foreclosure

The Costs of Foreclosure

The positive impacts of homeownership are far-reaching—and conversely, the negative impacts of losing a home are equally powerful. Indiana's high foreclosure rate of .98 percent—more than twice the national average—affects not only homeowners, but also the neighborhoods and cities in which they live. The mortgage industry also pays a price when foreclosure occurs. Lenders, loan servicers, and mortgage insurers all lose money when homeowners lose their houses.

A Family Housing Fund evaluation of a Minnesota foreclosure prevention program estimates that each foreclosure results in total costs of $26,600 to $73,300 for the homeowner, lender, servicer, mortgage insurer, and others.[lx] For comparison purposes, a typical low-income homebuyer in Indiana currently incurs an average original mortgage of approximately $91,000.[lxi] This would suggest that foreclosure costs may range from 29 percent to 80 percent of the original home loan.

Table 13: Estimated Costs of Foreclosure For All Stakeholders[lxii]

	Scenario I: *Foreclosure involving an FHA-insured mortgage. The house becomes vacant and boarded. The city rehabs the house for resale.*	**Scenario II:** *Foreclosure involving privately insured mortgage. House sold. Some foreclosure costs recovered.*
Homeowner	$7,200	$7,200
Lender	$1,500	$2,300
Mortgage Insurer	$26,500	$16,000
Servicer	$1,100	$1,100
City	$27,000	N/A
Neighbors	$10,000	N/A
Total Stakeholder Loss	$73,300	$26,600

Retaining the Benefits of Homeownership: Foreclosure Prevention Strategies

Fortunately, there are cost-effective methods to help homeowners avoid foreclosures and remain in their homes. Numerous studies have demonstrated that a comparatively small investment in homeownership counseling can reap substantial savings by preventing defaults and foreclosures.

The largest of these, a Freddie Mac study of nearly 40,000 mortgages from the Freddie Mac Affordable Gold program, found that pre-purchase homeownership counseling reduced 90-day delinquency by 19 percent as compared to borrowers with similar characteristics who did not receive counseling.[lxiii] A 2002 Ohio State University study found that pre- and post-purchase counseling reduced default by 50 percent.[lxiv]

Counseling for borrowers who are already in default also provides significant return on investment. The Family Housing Fund in Minnesota found that an investment of $3,300 per client ($1.6 million total) to pay for foreclosure prevention counseling and/or emergency assistance averted 487 foreclosures, the total costs of which would have ranged from $12.9 million to $35.7million. Almost 60 percent of the 800 homeowners in the Minnesota program succeeded in reinstating their mortgages.[lxv]

A report released by the U.S. Department of Housing and Urban Development suggests that keeping borrowers in their homes is cost-effective for lenders, noting that "the cost of helping a borrower cure a default is minimal compared to the interest expense, legal fees, and property management cost associated with foreclosure." Despite the additional administrative costs that lenders incur by negotiating with borrowers to find a "workout" solution, the report estimates that in some cases, "the cost savings on each foreclosure-alternative success are so large as to be able to finance the extra costs associated with more than three failures."[lxvi]

At Indiana's current rate of foreclosure, similar prevention strategies would cost $5 million, would save at least $22.5 million per year, and would preserve the housing assets of 1500 low-income households.

Keeping At-Risk Families Together

Unstable or unsafe housing affects children in many ways. For families with children, the need for adequate, affordable housing carries especial importance.

One of the most direct, serious, and expensive impacts of inadequate housing on children is the risk of removal from their families. When parents cannot afford to provide quality, safe housing, child welfare agencies may intervene to remove children from the home and place them in foster care. This is a less than desirable outcome for several reasons.

In the long term, research indicates that the long-term effects of a child being placed in foster care are significant. Compared to the general population, adults who were placed in foster care as children are more likely to have mental health disorders such as post-traumatic stress disorder and depression; are less likely to be employed; and are more likely to lack health insurance.[lxvii]

The dropout rate for foster youth is more than twice that of those not in foster care.[lxviii] In Missouri, a recent study estimated that each 2005 dropout will cost the state $4,000 each annually for the rest of their lives, including increased costs associated with Medicaid, incarceration and loss of tax revenue.[lxix]

Economic Impacts of Foster Care Placement

Beyond the social considerations, the economic effects of foster care are also substantial. The cost of placing children in foster care far exceeds the cost of providing stable housing for their families. Nationally, the average annual cost of keeping the children of one family in foster care is $47,608 annually. The average cost of permanent housing and supportive services for the same family is approximately $13,412—less than one-third of the cost of foster care placement.[lxx]

Providing permanent housing and supportive services for the 650 Indiana children removed from their homes due to inadequate housing would cost $8.7 million—$22 million less than it would cost to keep them in the foster care system.[lxxi]

X. Next Steps for Indiana's Affordable Housing and Community Development Fund

The renewed energy and interest being focused on Indiana's Affordable Housing and Community Development Fund are an important step in moving toward an Indiana where all Hoosiers have a safe, quality home that they can afford. The Development Fund can play a significant role in achieving that goal.

The recommendations made by the Advisory Committee are an important part of this conversation. Now, these recommendations must be further considered to determine which will be implemented. Policymakers, administrators, funders, practitioners, and other stakeholders will all have an interest in the outcomes.

Finally, the Advisory Committee's role does not end with the presentation of this report. The Indiana law that instituted the Advisory Committee provides for a broader and longer-reaching responsibility. In this capacity, the Advisory Committee will continue to meet and provide input on the activities of the Development Fund.

End Notes

[i] U.S. Department of Housing and Urban Development. Office of Community Planning and Development. "Affordable Housing – CPD – HUD." Retrieved October 25, 2005 from www.hud.gov/offices/cpd/affordablehousing/index.cfm.
[ii] U.S. Census Bureau, 2004 American Community Survey. "United States Selected Housing Characteristics: 2004."
[iiiiii] Millennial Housing Commission. "Meeting Our Nation's Housing Challenges," p. 93. Washington, D.C.: May 30, 2002. Data based on analyses of HUD's American Housing Surveys.
[iv] Joint Center for Housing Studies of Harvard University. "The State of the Nation's Housing 2005," p. 23. President and Fellows of Harvard College: Cambridge, MA, 2005.
[v] Center for Community Change. "What Are Housing Trust Funds?" Retrieved January 6, 2006 from www.communitychange.org/issues/housingtrustfunds/whatarehousingtf/.
[vi] Data from Indiana New Economy Workforce Statistics, www.in.gov/dwd/inews/lmi.asp.
[vii] National Association of Home Builders. "The Local Economic Impact of a Typical Low-Income Housing Tax Credit Project." September 2005. Retrieved December 8, 2005 from www.nahb.org.
[viii] Center for Community Change. "Home Sweet Home: Why America Needs a National Housing Trust Fund." 2001. Retrieved October 24, 2005 from www.communitychange.org/shared/publications/downloads/HTFP_Home_Sweet_Home_021505.pdf.
[ix] There's No Place Like Home: How America's Housing Crisis Threatens Our Children.
[x] U.S. Census Bureau. Current Population Survey. "Health Insurance Coverage: 2004."
[xi] U.S. General Accounting Office. Elementary School Children: Many Change Schools Frequently, Harming Their Education. February 1994. Retrieved April 3, 2006 from www.gao.gov/cgi-bin/getrpt?GAO/HEHS-94-45.
[xii] Gottlob, Brian. "The High Cost of Failing to Reform Public Education in Missouri." Indianapolis: Milton and Rose D. Friedman Foundation, March 2006.

[xiii] Indianapolis Star Editorial Board. "Missing in Action." May 15, 2005. Retrieved April 14, 2006 from www.indystar.com/apps/pbcs.dll/article?AID=/20050515/OPINION/505150317/1002.
[xiv] Low-Income Investment Fund. Impact of Affordable Housing on Individuals and Families. June 2005. Retrieved April 3, 2006 from http://www.liifund.org/assets/documents/section_press/Housing_Report_pdf.pdf.
[xv] Lawler, Kathryn. Aging in Place: Coordinating Housing and Health Care Provision for America's Growing Elderly Population. Joint Center for Housing Studies of Harvard University and Neighborhood Reinvestment Corporation, October 2001. Retrieved April 3, 2006 from www.jchs.harvard.edu/publications/seniors/lawler_w01-13.pdf.
[xvi] National Association of Realtors. Social Benefits of Homeownership and Stable Housing. January 2006. Retrieved April 3, 2006 from www.realtor.org/Research.nsf/Pages/HomeownershipBenefits.
[xvii] Rohe, William and Leslie S. Stewart. Homeownership and Neighborhood Stability. Housing Policy Debate, Volume 7, Issue 1, 1996. Retrieved April 3, 2006 from www.fanniemaefoundation.org/programs/hpd/pdf/hpd_0701_rohe.pdf.
[xviii] Harkness, Joseph, and Sandra Newman. and J. Harkness. Differential Effects of Homeownership on Children from Higher- and Lower-Income Families. Journal of Housing Research 14:1. 2002.
[xix] National Coalition for the Homeless. "How Many People Experience Homelessness?" NCH Fact Sheet #2. Retrieved June 2, 2006 from www.nationalhomeless.org/publications/facts/How_Many.pdf.
[xx] Ibid.; 2006 State of Indiana Draft Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section V, pp. 16-19. Data source: Coalition for Homelessness Intervention and Prevention. *What is the Consolidated Plan?* HUD requires states and local communities to prepare a Consolidated Plan in order to receive federal housing and community development funding. The Consolidated Plan combines into a single document the planning and application requirements for multiple federal funds: Community Development Block Grant, HOME Investment Partnerships Program, Emergency Shelter Grant, and Housing Opportunities for People with AIDS funding. The purpose of the Consolidated Plan is to identify the state's housing and community development needs, priorities, goals, and strategies, and to stipulate how funds will be allocated to housing and community development organizations and local governments.
[xxi] 2005 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section V, pp. 16-18.
[xxii] 2005 State of Indiana Consolidated Plan and 2006 Draft Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section V, pp. 20-22.
[xxiii] 2006 State of Indiana Draft Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section V, p. 22.
[xxiv] 2000 Census.
[xxv] 2005 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section IV, p. 30.
[xxvi] Ibid.
[xxvii] 2005 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section IV, p. 27.
[xxviii] 2000 Census.
[xxix] 2005 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section IV, pp. 27-30.
[xxx] Indiana State Utility Forecasting Group, 2003 electricity projections.
[xxxi] Audin, Lindsay. "Heating Up Electrical Costs." Building Operating Management: October 2004. Retrieved December 1, 2005 at www.facilitiesnet.com/bom/article.asp?id=2129.
[xxxii] Table taken (with some minor modifications) from Indiana's 2005 Consolidated Plan. Exhibit IV-25, Section IV, Page 30.
[xxxiii] This is median household income as determined by the US Census/American Community Survey. It is somewhat lower than median family income as determined by HUD.
[xxxiv] The average weighted per-unit subsidy provided for transitional and supportive housing through IHCDA's Development Fund, HOME, and CDBG programs from 1994 to 2005.
[xxxv] Center on Budget and Policy Priorities. "Introduction to the Housing Voucher Program." May 14, 2003. Retrieved December 22, 2005 from www.cbpp.org/5-15-03hous.pdf.
[xxxvi] Includes total homeownership gap from Table 3.
[xxxvii] Includes funding for all construction-related activities, down payment assistance, housing counseling, and subsidized home loans. Dollar amounts rounded to nearest thousand.

[xxxviii] Using data from IHCDA's 2000-2004 Year End Summaries, $13,850,000 represents the average amount of HOME money available to IHCDA in each of the past five years.
[xxxix] Using data from IHCDA's 2000-2004 Year End Summaries, $5,761,000 represents the average amount of CDBG money available to IHCDA in each of the past five years.
[xl] Using data from IHCDA's 2000-2004 Year End Summaries, there has been an average of $113,774,000 in Housing Tax Credits available to IHCDA in each of the past five years.
[xli] Using data from IHCDA's 2000-2004 Year End Summaries, $41,239,000 represents the average amount of Multi-Family Bond money available to IHCDA in each of the past five years.
[xlii] 2004 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm. Section V, Page 43.
[xliii] Average of the "Fair Share" Incremental Section 8 Vouchers allocated to Indiana in FY 2000, 2001, 2002, and 2003. HUD News Release, August 31, 2000, HUD No. 00-228; Federal Register, Volume 65, No. 240, December 13, 2000, p. 78048; Federal Register Volume 67, No. 36, February 22, 2002, p. 8437; Federal Register Volume 69, No. 33, February 19, 2004, p. 7779-7787.
[xliv] Average of awards for FY 2001, 2002, and 2003. HUD News Release, October 31, 2001, HUD No. 01-109; HUD News Release, October 14, 2002, HUD No. 02-110; HUD News Release, November 20, 2003, HUD No. 03-128.
[xlv] Average of awards for FY 2001, 2002, and 2003. HUD News Release, October 31, 2001, HUD No. 01-111; HUD News Release, October 14, 2002, HUD No. 02-110; HUD News Release, November 20, 2003, HUD No. 03-128.
[xlvi] HUD State-by-state information on ADDI program. Retrieved from www.hud.gov/offices/cpd/about/budget/budget04/states/in.xls
[xlvii] Average of grants for FY 2002, 2003, and 2004. Source: HUD News Release October 16, 2002, HUD No. 02-117; HUD News Release November 13, 2003, HUD No. 03-124; HUD News Release October 26, 2004, HUD No. 04-127.
[xlviii] Average of awards for FY 2002 and 2003. HUD News Release December 17, 2002, HUD No. 02-151; HUD News Release December 19, 2003, HUD No. 03-143; HUD News Release January 25, 2005, HUD No. 05-007. According to data supplied by Delores Koziol with the Indianapolis office of the Department of Housing and Urban Development, an average of only 3.4 percent of CoC awards went to bricks and mortar construction in 2003 and 2004.
[xlix] Data provided by Kelly Barmann, USDA Rural Development, Indiana office (12/21/2004) in form of Excel spreadsheets covering allocations from 2001 through 2004.
[l] Federal Home Loan Bank of Indianapolis, Affordable Housing Program. Retrieved from www.fhlbi.com/housing/ahprog.asp.
[li] Federal Home Loan Bank of Indianapolis, Homeownership Opportunities Program. Retrieved from www.fhlbi.com/housing/hopprog.asp.
[lii] Federal Home Loan Bank of Indianapolis, Home Savings Program. Retrieved from www.fhlbi.com/housing/hsprog.asp.
[liii] Data provided by John Banks, Habitat for Humanity of Indiana (12/28/2005) in form of Word table including philanthropic and private contributions from 2000 through 2004.
[liv] In 2004/2005, the Indiana Department of Commerce provided $579,916 in NAP credits for affordable housing. Donors receive credits for 50 percent of the amount of their donation. This would lead to approximately $1,160,000 in donations for affordable housing.
[lv] It should be noted that, of this amount, $32,980,000 comes from programs that are focused solely on homeownership and owner-occupied repair.
[lvi] This assumes a 3 percent annual growth in these government resources, and then takes the average of all government resources over a 30-year period.
[lvii] www.in.gov/bond/p_finrpt.htm (August 12, 2005).
[lviii] 2005 State of Indiana Consolidated Plan, www.in.gov/ihcda/comdev/conplan/plan.htm..
[lix] Data from FSSA staff Mike Fowler and Neil Steffens, April 20, 2006.
[lx] Family Housing Fund. Preventing Mortgage Foreclosure – Is it Cost Effective? Summary of Findings. 1998. Retrieved April 3, 2006 from www.fhfund.org/_dnld/reports/MFP_1998.pdf.
[lxi] Average original loan amount, based on IHCDA loan portfolio for loans closed August 2004 – November 2005. Includes loans with and without down payment assistance, and with the Mortgage Credit Certificate.

[lxii] Ibid. The loss figures in Scenarios I and II represent average losses experienced by the typical homeowners served by the foreclosure prevention program, lenders and servicers, mortgage insurers and neighborhoods. Losses to the city represent the lower end of the range of losses that the city typically experiences.3. Losses to lenders are lower in Scenario I than in Scenario II because FHA mortgage insurance provides more comprehensive coverage than private mortgage insurance.
[lxiii] Hirad, Abdighani and Peter Zorn. "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling." May 2001. Retrieved April 3, 2006 from www.freddiemac.com/corporate/reports/pdf/homebuyers_study.pdf.
[lxiv] Hartarska, V., et al. "Credit Counseling and the Incidence of Default on Housing Loans by Low-Income Households." Columbus, Ohio: The Ohio State University, 2002.
[lxv] Family Housing Fund. Preventing Mortgage Foreclosure – Is it Cost Effective? Summary of Findings. 1998. Retrieved April 3, 2006 from www.fhfund.org/_dnld/reports/MFP_1998.pdf.
[lxvi] U.S. Department of Housing and Urban Development. Providing Alternatives to Mortgage Foreclosure: A Report to Congress. March 1996. Retrieved April 3, 2006 from www.huduser.org/publications/hsgfin/mortgage.html.
[lxvii] Pecora, Peter, et al. "Improving Family Foster Care: Findings from the Northwest Foster Care Alumni Study." Seattle: Casey Family Programs, 2005.
[lxviii] Blome, W. "What Happens to Foster Kids: Educational Experiences of a Random Sample of Foster Care Youth and a Matched Group of Non-Foster Care Youth." Child Adolescent Social Work 14(1): 41-53, 1997.
[lxix] Gottlob, Brian. "The High Cost of Failing to Reform Public Education in Missouri." Indianapolis: Milton and Rose D. Friedman Foundation, March 2006.
[lxx] Child Welfare League of America. "Statement by Shay Bilchick in favor of H.R. 1461, the Federal Housing Finance Reform Act of 2005, and the Creation of an Affordable Housing Fund." October 19, 2005. Retrieved April 12, 2006 from www.cwla.org/advocacy/housing051019.htm.
[lxxi] 2003 data from the Adoption and Foster Care Analysis and Reporting System (AFCARS) shows that 1,512 Indiana children currently in foster care were removed from their families due to inadequate housing. Of these, the case plan goal for 649 children was to reunify them with their families, thus suggesting that inadequate housing may have been the sole or primary reason for their foster care placement.

Appendices

Appendix A: List of Current Advisory Committee Members

Appendix B: Revenue Sources Used by Other State Housing Trust Funds

Appendix C: Summary of Report from David Rosen and Associates

Appendix D: Summary of Development Fund Funding Sources, 1989 – Present

Appendix E: List of Original Advisory Committee Members, 1989

Appendix F: History of the Indiana Affordable Housing and Community Development Fund

Appendix G: Calculations for Estimating the Annual Cost to Meet Indiana's Affordable Rental Housing Needs

Appendix H: Calculations for Estimating the Annual Cost to Meet Indiana's Affordable Homeownership Needs

Appendix I: Other Revenue Sources Considered by the Advisory Committee

Appendix J: Overview of Potential Revenue Sources

Appendix K: Programmatic Options for the Development Fund

Appendix A

List of Current Advisory Committee Members

Chair: Fred Hash, Great Lakes Capital Fund

Charles Boyle, Office of Mental Health Policy and Planning, Indiana Family and Social Services Administration

Larry Gautsche, LaCasa of Goshen

Jamie-Joe Harris, Bedford Urban Enterprise Association

Jack McCombs, Prodigy Realtors

Darlene Mezetta, Mezetta Construction

Beverly Mukes-Gaither, Fifth Third Bank

Cortne O'Neill, Housing and Community Services, Indiana Family and Social Services Administration

Steve Proctor, CAP of Western Indiana

Caroline Shook, Housing Opportunities, Inc.

Zohrab Tazian, Tazian Enterprises

Hillary Tebo, Wall's Homes

George Tikijian, Tikijian Associates

Alice Weathers, CAP of Evansville and Vanderburgh County

Appendix B

Revenue Sources Used by Other State Housing Trust Funds

Revenue Source	State
Document Processing Fee	Delaware Ohio Missouri Washington
Sales Tax on Building Materials	None
Local Government Bond Surcharge	None
Private Activity Bond Surcharge	Kansas Minnesota New Hampshire
Philanthropic Donations	None
Bond Issues	Massachusetts Washington
Real Estate Transfer Tax	Florida Hawaii Illinois Maine Nebraska Nevada New Jersey South Carolina Vermont
Unclaimed Property Fund	Arizona
Interest on Residential Real Estate Sales Escrow Accounts	Maryland Minnesota Washington Wisconsin
Interest on Rental Security Deposits	Oregon

Revenue Source	State
Interest on Mortgage and Insurance Escrow Accounts	None
State Lottery Proceeds	Oregon
Unclaimed Lottery Winnings	Kentucky Washington
Community Contribution Tax Credit	Montana Michigan (proposed)
Interest on Counter-Cyclical Economic Stabilization Fund	Ohio (in the past)
Residential Homeowner Property Tax Deduction	None
Donations in Return of Allocation Points	None
Fees/Fines for Tax Credit Monitoring	None
Challenge Grants	None
General Fund Allocations	Delaware Georgia Iowa Kentucky Louisiana Maine Massachusetts Minnesota North Carolina Oklahoma Oregon Utah Vermont

Appendix C

Summary of Report from David Rosen and Associates

Potential Funding Sources

David Rosen outlined seven potential sources of revenue for the Development Fund.

Interest on Home Sale Escrow Deposits

This refers to funds routinely held in escrow for short periods of time while home, land, and commercial sales are being finalized. By aggregating such deposits in an interest-bearing public trust account, significant income can be generated. The state of Maryland capitalized its trust fund with voluntary contributions from the interest earned on these accounts.

Indiana requires all real estate brokers to set up trust accounts, keep a detailed record of any interest earned, and hold that interest for the beneficiary. The responsibility for doing this lies with the realtor, and not with the bank where the funds are deposited. To tap interest earnings on these accounts would require the state to initiate a process to require banks to regulate them.

Generally speaking, realtors tend to prefer to put escrow funds into a non-interest-bearing trust account. This is due to the fact that, whenever interest is earned in a trust account, realtors are responsible for keeping track of how much interest each depository in that account has earned and returning that money to them. This is a serious encumbrance, which often causes realtors to avoid using interest-bearing trust accounts. To make a voluntary system work, as in Maryland, it would be necessary to ensure that it did not require any extra effort on the part of the real estate agents.

The estimated revenue from this source for Indiana, as of 1990, was between $0.97 million and $1.7 million per year.[1]

Interest on Rental Security Deposits

As with sales escrow accounts, security deposit accounts are unregulated by the state of Indiana. Many small landlords do not even maintain separate trust accounts for their security deposits. It would not be possible to mandate that every landlord open such an account and report interest earned on it. However, the state could impose a nominal surcharge on the state income tax for all property owners receiving residential rental income. The surcharge could be scaled to equal the estimated annual interest income per unit: approximately $18 in 1990.

The estimated revenue from this source for Indiana, as of 1990, was between $7.1 million and $12.3 million per year.

Interest on Mortgage and Insurance Escrow Deposits

This refers to escrow accounts set up by mortgage lenders to collect and disburse funds for paying real estate taxes and insurance. As of 1990, these accounts were effectively

[1] The range in income estimates for all of the proposed funding sources depends on the interest rate. For this report, the David A. Rosen and Associates utilized rates of 5.75% and 10% to create an estimated income range.

unregulated in Indiana. In order for Indiana to benefit from net interest earnings on these accounts, Indiana law must be amended to not only direct such earnings to the Development Fund, but to begin regulating lenders and mortgage service companies with regards to their management of mortgage escrow accounts.

The estimated revenue from this source for Indiana, as of 1990, was between $1.5 million and $9.5 million per year.

1990 Estimated Revenues From Sale Escrow, Rental Security, and Mortgage Escrow Deposits		
Source	**5.75% Interest Rate**	**10% Interest Rate**
Sale Escrow Deposits	$0.97 million	$1.7 million
Rental Security Deposits	$7.1 million	$12.3 million
Mortgage Escrow Deposits	$1.5 million	$9.5 million

State Lottery Proceeds

Indiana has a state lottery. As of 1990, the annual net revenues were projected to be $140 million. This money was to be used for economic development. Affordable housing is an integral part of economic development. It could be argued that the state should set aside a small percentage of lottery revenues for the Development Fund.

Annually, the lottery gives 29% of gross revenues back to the state of Indiana. Since its establishment, it has given approximately $2.4 billion back to the state. That money has been distributed as follows:

- $293.2 million has been designated for public schools' tuition support;
- $83.7 million has been allocated for school technology;
- $447.6 million to the Teachers' Retirement Fund;
- $259.7 million to the Pension Relief Fund to help pay for the retirement benefits of police officers and firefighters;
- $273.4 million to Build Indiana Capital Projects Fund;
- $46.2 million to local road construction;
- $698.1 million has been used to lower license plate taxes;
- $30.0 million has been dedicated to job creation and economic development;
- $133.2 million has been appropriated to the Property Tax Replacement Fund;
- 140.8 million has been transferred to the General Fund.

In 2003, the net revenue for the state lottery was $175.6 million. The estimated revenue from this source for Indiana, as of 2003, would be between $0.875 million and $8.75 million, depending on what percentage of proceeds are set aside ($875,000 at 0.5 percent and $8.75 million at 5 percent).

2003 Estimated Revenues From State Lottery Proceeds	
0.5 Percent of Total Revenues	**5.0 Percent of Total Revenues**
$0.875 million	$8.75 million

Surplus Bond Revenues

Most states provide options for private entities to obtain tax-exempt bonds for such purposes as housing, hospitals, and student loans. The bonds are repaid through revenues generated by the project, and a debt service reserve fund must be established to insure the bondholder against loss in the event that the project runs into trouble. Because problems generally occur within the first few years of a project, as time goes on there is less and less likelihood that all of the reserve fund will ever be needed. In addition, the debt service reserve is often used to pay off the bond in its last year, which also creates surplus funds since the borrower is still making payments. These surpluses can be distributed by the issuing agency.

State CDBG Set-Aside

As of 1990, Indiana received approximately $25 million per year for its Community Development Block Grant (CDBG) Small Cities program. Almost none of this money was spent on affordable housing. IHCDA could seek to establish an agreement with the Indiana Office of Rural and Community Affairs to set aside a certain portion of annual CDBG funds for affordable housing. Using the lowest national average allocation to affordable housing during 1982-1989, this would represent an investment of $5 million per year into the Development Fund (21 percent of Indiana's total CDBG allocation).

IHCDA could run this $5 million through the Development Fund. The money could be used to provide interest only loans for the development of affordable housing (in accordance with CDBG funding guidelines). Assuming no repayment of principal and no losses or defaults, IHCDA could earn between $150,000 (at 3% interest) and $300,000 (at 6% interest) per year.

Note: IHCDA did reach an agreement with the former Indiana Department of Commerce to set aside $5 million per year of CDBG funds for affordable housing. However, under HUD regulations, this money cannot be given out in the form of loans. Thus, while this has increased the amount of money available for affordable housing in Indiana, it cannot be used to grow the Development Fund. In addition, CDBG funds can only be granted to local units of government (as opposed to 501(c)3 organizations), and, per statute, money from the Development Fund cannot be distributed to local units of government. Thus, CDBG funds cannot be run through the Development Fund.

Redevelopment Commissions

Redevelopment Commissions (RCs) have the authority to designate Tax Increment Financing Districts (TIFs), in which the existing allocation of property tax revenue is frozen at a base, and all future revenue generated above that base is allocated to the RC. While RCs may assist in the provision of housing, as of 1990 it was still unclear whether they could provide direct assistance in the form of TIF funds. The appropriate statutes would need to be clarified to allow TIF funds to be used for affordable housing. Indiana could also consider implementing a requirement that a certain percentage of TIF funds be spent on housing. As an example, California requires that 20% of all TIF funds be spent on affordable housing. This would not provide money to the Development Fund, but would still provide support for affordable housing in Indiana.

Potential Program Activities

David Rosen outlined proposals for six different types of funding programs.

Capacity Building, Training, and Technical Assistance

IHCDA could provide small forgivable loans of $15,000 to $30,000 for capacity building. The loans would be unsecured, with flexible terms and interest rates and short lending periods. They should be viewed as forgivable loans that would only be repaid if the project that the agency was working towards got funded. This program could be used primarily to foster joint ventures between experienced CDCs and both inexperienced CDCs and for-profit developers that are interested in working in conjunctions with nonprofit agencies to create affordable housing.

Major Predevelopment Loans

These would be secured loans to cover expenses such as property options and purchase, architectural and engineering services, appraisals, financial and legal consultants, and financing fees. Loans for soft costs could be restricted to $75,000. Loans for hard costs, like property acquisition, could be limited to $250,000, but should not be made until the Development Fund is large enough to support them. Loans should only be made on projects that have already obtained significant approvals and commitments. They should be made against collateral and could be underwritten with a high loan-to-collateral ratio—up to 100 percent. The loan terms should be short to intermediate in length.

Down Payment Assistance

This money would be intended to assist families who are already able to meet standard debt service obligations and have $1,000 to $2,000 to put toward a down payment. Loan amounts could be $3,000 to $7,500. The loans would only be repaid if and when the family sold their home.

Bridge Loan Program

This would be used to provide three- to seven-year bridge loans for syndicated tax credit projects. Investor payments in tax credit projects are often structured over a three- to seven-year period, while the developer needs that money in the first one to two years of the project. Bridge loans would be made available by participating banks, and the loans would be secured by placing $2.5 million of Development Fund assets into CDs.

Second Mortgage Homebuyer Assistance

This is similar to down payment assistance, but it is a secured second mortgage loan, rather than a sleeper loan that is only repaid when the family sells their home. The loan repayment may be amortized, deferred, or partially deferred, but must still be repaid. This option works well for families who could afford the additional monthly mortgage payments, but don't have the money for a down payment. As with down payment assistance, the loans would be made by participating banks (backed up by a CD), typically the same bank providing the first mortgage.

Leveraging Permanent Mortgage Financing

This would involve establishing a loan loss reserve for participating banks through the purchase of certificates of deposit (CDs). The reserve would help to expand the pool of funds available to provide first and second mortgages to low-income homebuyers.

Appendix D

Summary of Development Fund Funding Sources, 1989 - Present

Source of Funding	Year(s)	Specific Type of Funding	Amount of Funding
General Fund[2]	1989-1992	Annual appropriations (1989-1992)	$1,000,000
	1989	Money to establish Development Fund	$35,000
	1997-1998	Build Indiana Fund	$600,000
PDIF (Indiana Board for Depository Institutions)[3]	1993	Bond purchase (After purchase of treasury strip and payment of legal fees)	$3,771,634
Capital Contributions	1993-1997	Multi-Unit Mortgage Program Fund[2]	$1,500,000
	1998-2001	Portion of IHCDA's annual dividend[4]	$3,855,000
	1992-2003	Interest on Investments[5]	$2,148,498
Financial Adjustment Factor (FAF) Income[5]	1992-2003	Multi-Unit Indenture refunding	$1,353,361
Total			**$14,263,493**

As recommended in the 1990 feasibility study, IHCDA did also enter into a contract with the former Indiana Department of Commerce to administer a $5 million set-aside from the State's $24 million Community Development Block Grant (CDBG) allocation. This money was not eligible to go into the Development Fund, but is used to fund affordable housing across the state.

[2] 2000-2001 Audited Financial Statement for the Low-Income Housing Trust Fund.
[3] PDIF loan closing statement from the Indiana State Treasurer's office.
[4] 1998-2001 Audited Financial Statements for the Low-Income Housing Trust Fund.
[5] 1992-2003 Audited Financial Statements for the Low-Income Housing Trust Fund.

Appendix E

List of Original Advisory Committee Members, 1989

The Development Fund legislation authorizes the creation of a 16-member Advisory Committee to make recommendations regarding the development of policies and procedures for the Development Fund and the search for long-term sources of funding to capitalize the Development Fund. The statute clearly specifies which interest group each member of the Advisory Committee must represent. The original members of the Advisory Committee, and the groups that they represented, were:

Department of Human Services: Jeff Richardson

Department of Mental Health: Fred Hash

Department of Public Welfare: Steve McCaffrey

Department of Commerce: Ira Peppercorn

Apartment Owners Association: Minor L. Best, Hanover Group

Low-Income Families: Rod Bohannon, Legal Services Organization

Residential Real Estate Developers: William Conner, William S. Conner and Company

Construction Trades: Harry Gowan, Central Indiana District Council of Carpenters

Persons With Disabilities: Thad Hanway, Monon Telephone Company

Real Estate Brokers: Jim Litten, F.C. Tucker and Company

Neighborhood Groups: Charles Montgomery, Martin Luther King CDC

Neighborhood Groups: Arden Shank, LaCasa of Goshen, Inc.

Service Providers: Carlotta Mitchell, Hoosier Uplands EDC

Manufactured Housing Industry: Maggie Stephenson, Redbud Estates

Community Organizations: Dennis West, Eastside Community Investments

Banks and Lending Institutions: John Revell, Trustcorp Bank

Appendix F

History of the Indiana Affordable Housing and Community Development Fund

Establishing the Development Fund

The 1989 Indiana legislative campaign to develop the Development Fund (known as the Low-Income Housing Trust Fund from its inception until 2006) involved a coalition of housing organizations. This group hoped that the Development Fund would support affordable housing programs by offering:

- Grants and low-interest loans for housing development, including loan guarantees and recoverable loans for pre-development costs;
- Down payment assistance;
- Funds for the acquisition of vacant land or abandoned buildings;
- Funds to increase the number of accessible units available to persons with disabilities; and
- Technical assistance grants for non-profit developers.

The coalition also hoped that the Development Fund would have a long-term, dedicated revenue source, but the House and Senate bills to create the Development Fund did not initially provide for a specific source of funding. However, Sen. Greg Server (R-Evansville) later made a proposal to provide a one-time $5 million appropriation for the Development Fund from the state's Rainy Day Fund.[1] Sen. Server's amendment was approved, and the $5 million appropriation was added to the Senate bill.[2] The same amendment was also added to the House bill.

The legislation received broad support in the General Assembly.[3] However, it ran into trouble when Governor Bayh's budget plan did not include any money for the Development Fund. The Governor had already vetoed the budget passed by the House and Senate because it was too large and would have required a tax increase. He also indicated that he did not want a new budget to rely on taking money from the Rainy Day Fund.[4]

In a search for compromise, a legislative conference committee agreed that the $5 million in funding should come from a zero-percent interest loan from the Public Depositories Insurance Fund. This loan, repayable over 20 years, would be accompanied by a $500,000 appropriation from the General Fund. Of the $5 million loan, half would be administered by the then-Indiana Housing Finance Authority (IHFA; now, the Indiana Housing and Community Development Authority) and lent to developers at below-market rates. The other

[1] Pockrass, Steven. Legislature Urged to Fund Housing. *Indianapolis News*, April 20, 1989, p. D9.
[2] Hanafee, Susan. Housing Trust Fund Considered as Means to Help State's Homeless. *Indianapolis Star*, February 2, 1989.
[3] Bayh Backs Fund for the Homeless. *Indianapolis News*, April 21, 1989, p. C8.
[4] Blum, Peter. Budget Proposal Falls Short. *Indianapolis News*, April 22, 1989, p. C1.

half would be made available in the form of certificates of deposit purchased at Indiana banks and used to fund low-interest loans to developers of affordable housing.[5]

Once the bill was passed and the Development Fund had been established, the Fund's Advisory Committee was formed to advise the administration on policies and procedures and to make recommendations regarding long-term sources of funding for the Development Fund. Governor Bayh's office instructed the Advisory Committee to propose sources of revenue that did not involve taxes or fees.[6] This instruction was reflected in the recommendations of the Housing Trust Fund Feasibility Study. All of the revenue sources outlined in the feasibility study were either market-based, or drew on federal funding sources or existing state resources, such as the Hoosier Lottery.

In the years that followed, several legislative initiatives were proposed by members of the General Assembly in an effort to secure a dedicated revenue stream for the Development Fund. However, none of these were ultimately successful.

Financing and Grantmaking Procedures: 1991 – Present

First Two Rounds of Financing

The first two rounds of financing occurred in 1991, during which time IHFA proposed to make available up to $300,000 of the initial $500,000 appropriation from the General Assembly. The money was offered in the form of three-year forgivable loans for pre-development expenses (up to $50,000) and capacity building programs (up to $30,000). Altogether, 25 organizations submitted applications for the first two funding rounds, and ten were funded, for a total of $286,200.

Capacity-Building Grants

At this point, IHFA decided against using grants from the Development Fund to finance capacity-building activities for individual nonprofits because of concerns that such grants would deplete the already small Fund. IHFA did, however, ultimately provide four targeted capacity-building grants from the Development Fund. Each of these grants was made to larger intermediary organizations for projects affecting multiple areas of the state. The Development Fund has never been used to provide capacity-building grants directly to nonprofit organizations.

Establishing Loan Procedures

The final meeting of the Development Fund Advisory Committee appears to have taken place on December 10, 1992 (though the last meeting for which there are minutes took place on May 5 of that year). While there was never a decision to disband the group, no meetings were scheduled after that date. In 1994, the IHFA Board appointed a Loan Review Committee to review Development Fund applications. The committee was made up of three IHFA Board members, and was responsible for making formal funding recommendations to the IHFA Board.

The first set of procedures for Development Fund loans, released in 1994, emphasized that the Development Fund was meant to provide supplemental rather than primary financing. Most of the loan funds were reserved for specific projects, including bridge loans and extended-term loans for tax credit projects. All such loans had a five-year term. They were designed to start at very low interest rates and to graduate over time in order to encourage shorter loan terms. The maximum loan under this program was $500,000, and the average loan size was expected to be $50,000.

---

[5] Low-cost Housing Gets Push. *Indianapolis News*, April 26, 1989, p. A6. Panel Approves $5 Million to Aid Homeless. *Indianapolis Start*, April 26, 1989, p. A12.
[6] Advisory Committee meeting minutes, August 18, 1989.

Nonprofits could also apply for more generic activity loans. IHFA offered linked deposits that could, for example, be used to lower the interest rate on a traditional line of credit. These funds were lent for limited periods, and could be renewed if no other agency needed them.

Finally, agencies could apply for small pre-development loans. The applicants had to demonstrate that their projects were feasible, but the loans could be forgiven if the agency was able to show that unforeseeable circumstances had rendered the project unfeasible and that repayment would impose an undue hardship on the organization.

Bridge Loans

The first and only bridge loan was made to the Indiana Equity Fund (IEF) in 1994. The IEF, a tax credit syndicator, requested the $1.26 million loan because it had to pay money out to the nonprofit developers that it financed at a faster rate than its investors had to pay money in to the IEF. The bridge loan enabled the IEF to pay developers faster and to offer a higher rate of return to their investors, meaning that the investors would be willing to pay more for the tax credits. Their investors agreed to pay the interest on the bridge loan, resulting in $250,000 in interest income to the Development Fund. Subsequently, IHFA moved away from bridge loans because of a concern that too many such loans would quickly exhaust the Development Fund's resources. The loan to the IEF was seen as a way to make money available on a faster basis to at least a limited number of tax credit projects without drowning in bridge loan applications.

Shift to a Combined Application

In 2000, IHFA moved to a combined application for the HOME Investment Partnerships Program (HOME), Community Development Block Grants (CDBG), and Development Fund programs. The decision to make the Development Fund part of the combined application allowed IHFA to start distributing funds purely on the basis of deserving projects/activities, rather than on the basis of which funding source an agency applied to. Also in 2000, the Development Fund application began for the first time to specifically delineate the types of projects that could be financed through the Development Fund. Recommendations on financing Development Fund loans were still made by the Loan Review Committee.

The Build-A-Home Program

From 1999 to 2002, IHFA ran the Build-A-Home program through the Development Fund. This began via an unrequested $600,000 appropriation made by the General Assembly from the Build Indiana Fund. Build-A-Home provided grant funds to assist volunteer homebuilding organizations (like Habitat for Humanity) in constructing affordable housing. Projects had to target 100 percent of their assistance to households at or below 50 percent of AMI.

In 1999, IHFA's Board resolved to dedicate 50 percent of the Development Fund's net interest income for 1998 to the Build-A-Home program—a total investment of $141,338. This was possible because of IHFA's 1998 decision to begin dedicating part of its dividend to the Development Fund, which meant that the interest earned on current funds was no longer Development Fund's only source of income. This was repeated in 2000 and 2001, when the Board dedicated $165,991 and $393,699 respectively to Build-A-Home.

In 2002, IHFA discontinued Build-A-Home. It was determined that the program was redundant since the same activities were being funded through the HOME program.

Extension of Loan Terms/ Reduction of Match Requirement

In 2003, IHFA sought feedback from community groups to determine why the Development Fund was not being adequately utilized. In response to this feedback, the agency made changes to the Development Fund program in order to make it more attractive and workable. In particular, IHFA extended the loan term for short-term financing under the Development

Fund from seven years to fifteen years, and lowered the matching funds requirement from ten percent to five percent.

Pre-Development Loans

In 2002, IHFA began making Development Fund monies available to finance pre-development activities. Previously, as a result of Federal requirements, only CHDOs had been eligible to apply for these loans. By making Development Fund monies available through the Foundations program, IHFA was able to start offering pre-development loans to other non-profit organizations, public housing authorities, and even for-profit entities. By the end of 2005, there had been just two applications for pre-development financing from non-CHDO agencies. In 2006, the newly renamed IHCDA reverted back to the original policy; only CHDOs will be eligible to apply for pre-development and seed money loans in 2006.

Overall Loans Financed

As of December 2005, 74 loans had been executed, totaling approximately $16,979,000. In addition, 31 grants had been executed, totaling approximately $1,498,600. Funded projects include emergency shelters, homebuyer new construction and rehabilitation, homeownership loan pools, lease-purchase programs, permanent supportive housing, rental housing, and transitional housing. Excluding the bridge loan to the Indiana Equity Fund, the average loan size has been $229,000, and loan amounts have ranged from $6,500 to $945,000.

Development Fund Loans and Grants, 1991 – 2005

Year	Rental	Home-ownership	Lease Purchase	Perm. Supportive	Emergency	Transitional	Training	Total
1991	$130,000	$80,000	$25,000	$0	$0	$0	$0	$235,000
1992	$0	$0	$0	$0	$0	$0	$250,000	$250,000
1993	$0	$0	$0	$0	$0	$0	$20,000	$20,000
1994	$300,000	$0	$0	$0	$0	$0	$0	$300,000
1995	$2,374,675	$521,000	$0	$0	$0	$240,000	$40,000	$3,175,675
1996	$0	$0	$325,000	$0	$0	$0	$29,254	$354,254
1997	$274,285	$860,000	$684,998	$0	$0	$0	$0	$1,819,283
1998	$480,000	$94,450	$0	$0	$0	$0	$0	$574,450
1999	$2,613,000	$1,664,967	$0	$0	$60,000	$540,500	$0	$4,878,467
2000	$269,287	$385,933	$215,105	$0	$0	$0	$0	$870,325
2001	$1,194,750	$236,579	$0	$0	$145,000	$0	$0	$1,576,329
2002	$200,750	$358,435	$0	$0	$0	$0	$0	$559,185
2003	$474,200	$761,193	$0	$300,000	$0	$0	$0	$1,535,393
2004	$1,297,800	$0	$0	$0	$0	$0	$0	$1,297,800
2005	$509,500	$0	$0	$0	$0	$522,000	$0	$1,031,500
Total	$10,118,247	$4,962,557	$1,250,103	$300,000	$205,000	$1,302,500	$339,254	**$18,477,661**

Appendix G

Calculations for Estimating the Annual Cost to Meet Indiana's Affordable Rental Housing Needs

Rental and Development Unit Costs, Per Annum and Over 15-Year Affordability Period		
1	Rental Subsidy Unit Cost Per Annum[1]	$3,774
2	Development Subsidy Unit Cost Per Annum[2]	$3,721
3	Rental Subsidy Unit Cost Over Affordability Period[3]	$56,615
4	Development Subsidy Unit Cost Over Affordability Period[4]	$55,814
Number of Rental- and Development-Subsidized Units Over 15-Year Affordability Period		
5	Rental Subsidy Units Over Affordability Period[5]	5,053
6	Development Subsidy Units Over Affordability Period[6]	3,406
Gross and Net Cost-Burdened Households		
7	Gross Cost-Burdened Households[7]	239,347
8	Rental Subsidy Rate[8]	59.7%
9	Development Subsidy Rate[9]	40.3%

[1] IHCDA Year-End Summaries, 2000-2004; Indianapolis HUD Office Fact Sheets, 2001-2004.
[2] IHCDA Year-End Summaries, 2000-2004; Indianapolis HUD Office Fact Sheets, 2001-2004.
[3] Equals the annual rental subsidy multiplied by 15 years. Development subsidies have an initial affordability period of at least 15 years, while rental subsidies are calculated for just one year. Therefore, a single unit of housing built with a development subsidy is the equivalent of 15 years' worth of a single unit of housing that receives a rental subsidy. This means that if we want to compare the cost of building a development-subsidized unit to the cost of paying for a unit with rental subsidy, we must multiply the annual cost of the rent subsidy by 15—to represent the years that the development subsidy would be in force.
[4] Equals the average development subsidy per annum, multiplied by 15 years.
[5] Equals line 3 divided by line 1.
[6] Equals line 4 divided by line 2.
[7] See Table 1 for details.
[8] Equals line 5 divided by the sum of lines 5 and 6.

	Gross and Net Cost-Burdened Households, Continued	
10	Gross Rental-Subsidized Households[10]	142,973
11	Rental Subsidy Turnover Rate[11]	11.0%
12	Net Rent Subsidy Households[12]	127,246
13	Gross Development-Subsidized Households[13]	96,374
14	Development Vacancy Rate[14]	12.5%
15	Net Development-Subsidized Households[15]	84,328
16	Net Cost-Burdened Households[16]	211,573
	Resultant Rental and Development Subsidy Costs Over 15-Year Affordability Period	
17	Additional Rent Subsidy Cost Over Affordability Period[17]	$7,203,993,618
18	Additional Development Subsidy Cost Over Affordability Period[18]	$4,706,650,431
19	**Total Annual Costs[19]**	**$11,910,644,049**

[9] Equals line 6 divided by the sum of lines 5 and 6.
[10] Equals line 7 multiplied by line 8.
[11] Center on Budget and Policy Priorities. "Introduction to the Housing Voucher Program." May 14, 2003. Retrieved December 22, 2005 from www.cbpp.org/5-15-03hous.pdf.
[12] Equals line 10 multiplied by line 11.
[13] Equals line 7 multiplied by line 9.
[14] Per an analysis of IHCDA's affordable rental housing portfolio.
[15] Equals line 13 multiplied by line 14.
[16] Equals the sum of lines 12 and 15.
[17] Equals line 3 multiplied by line 12.
[18] Equals line 4 multiplied by line 15.
[19] Equals line 17 plus line 18.

Appendix H

Calculations for Estimating the Annual Cost to Meet Indiana's Affordable Homeownership Needs

In these scenarios, we will assume an affordability period of 5 years for homebuyer subsidy and 10 years for development subsidy. We follow a logic model similar to that used for our rental housing cost estimates, using historical data to approximate per-unit costs.

	Homebuyer and Development Subsidy Costs, Per Annum and Over Affordability Period	
1	Homebuyer Subsidy Unit Cost Per Annum	$847
2	Development Subsidy Unit Cost Per Annum	$3,227
3	Homebuyer Subsidy Unit Cost Over Affordability Period[1]	$4,236
4	Development Subsidy Unit Cost Over Affordability Period[2]	$32,273
	Number of Homebuyer- and Development-Subsidized Units Over Affordability Period	
5	Homebuyer Subsidy Units Over Affordability Period[3]	1,394
6	Development Subsidy Units Over Affordability Period[4]	269
	Homeownership Gaps and Subsidy Ratios	
7	Gross Homeownership Gap for Low-Income Households (in Households)[5]	109,715
8	Homebuyer Subsidy Rate[6]	83.8%
9	Development Subsidy Rate[7]	16.2%
10	Gross Homebuyer-Subsidized Gap (in Households)[8]	91,990
11	Gross Development-Subsidized Gap (in Households)[9]	17,725

[1] Equals the annual homebuyer subsidy multiplied by 5 years.
[2] Equals the average development subsidy per annum, multiplied by 15 years.
[3] IHCDA Year-End Summaries, 2000-2004.
[4] IHCDA Year-End Summaries, 2000-2004; Habitat for Humanity of Indiana statistics.
[5] See Table 2 for details.
[6] Equals line 5 divided by the sum of lines 5 and 6.
[7] Equals line 6 divided by the sum of lines 5 and 6.
[8] Equals line 7 multiplied by line 8.
[9] Equals line 7 multiplied by line 9.

	Resultant Homebuyer and Development Subsidy Costs Over Affordability Period	
12	Additional Homebuyer Subsidy Cost Over Affordability Period[10]	$389,658,372
13	Additional Development Subsidy Cost Over Affordability Period[11]	$572,033,932
14	**Total Annual Costs[12]**	**$961,692,304**

[10] Equals line 3 multiplied by line 10.
[11] Equals line 4 multiplied by line 11.
[12] Equals line 12 plus line 13.

Appendix I

Other Revenue Sources Considered by the Advisory Committee

Sources Requiring Legislative Approval

1. Real Estate Transfer Taxes (RETTs) or Documentary Stamp Taxes

A Real Estate Transfer Tax is paid whenever a real property transfer document is recorded. It covers residential property, but may also be applied to commercial and industrial property. The tax is usually calculated as a set dollar amount per $1000 valuation of the property.

<u>Viability</u>
RETTs can address the problem of high-end development displacing affordable housing. As land and housing prices in an area rise, displacing low-income residents, the RETT provides a reliable stream of money to address the problem. RETTs are often opposed by the housing industry, which argues that higher closing costs can make housing less affordable and hinder economic development. This could be addressed by providing certain RETT exemptions. For instance, exemptions could be made for houses below the state median sales price, for first-time buyers, or for those earning less than Area Median Income. It is also possible to have a scaled tax whereby rates decrease above a certain home value.

There is evidence that counters the concern that RETTs hamper economic development. South Carolina increased its RETT in 1992 to support its housing trust fund. Real estate agents and the building industry fought the change, arguing that the increase would affect home sales. Since then, however, South Carolina has consistently outperformed the nation in home sales.[1] Real estate agents and builders there now strongly support the trust fund.[2]

Indiana is one of only thirteen states not to have a RETT.[3] The fact that the majority of states have a RETT should serve as some proof that it is not an obstacle to economic development. In fact, of the ten fastest-growing states,[4] seven have RETTs.

In 1997 and 1999, State Representative Bill Crawford (D-Indianapolis) sponsored bills that would have established a RETT to support affordable housing, but neither became law. However, this does not mean that a RETT is not viable, as other states have shown.

---

[1] Keeping the Promise: A Report on the Need for New Dedicated Revenue Sources for Kentucky's Affordable Housing Trust Fund. Homeless and Housing Coalition of Kentucky. December 16, 2003.
[2] Ibid.
[3] Summary of Real Estate Transfer Taxes by State. National Assn. of Realtors. Retrieved March 17, 2006 at www.realtor.org/SG3.nsf/files/TransferTaxRates(8-05).pdf/$FILE/TransferTaxRates(8-05).pdf.
[4] Based on the percentage change in population from 1990 to 2000.

Estimated Revenue

Type of Sale	Median Sales Price	Number of Sales	Estimated Revenue (Average Tax Per House)			
			$0.25 per $1,000 or fraction	$0.50 per $1,000 or fraction	$0.75 per $1,000 or fraction	$1.00 per$1,000 or fraction
Existing	$77,150[5]	145,300[6]	$2,833,000 ($19.50)	$5,667,000 ($39.00)	$8,500,000 ($58.50)	$11,333,000 ($78.00)
New	$109,553[7]	39,420[8]	$1,084,000 ($27.50)	$2,168,000 ($55.00)	$3,252,000 ($82.50)	$4,336,000 ($110.00)
Total			$3,917,000	$7,835,000	$11,752,000	$15,669,000

2. Unclaimed Property, Reversion, or Escheat

Unclaimed property reverts to the state when no legal heirs or claimants can be found. Some states have used appropriations from this fund to finance housing trust funds.

Viability

In Indiana, intangible property held by businesses or financial institutions is presumed abandoned after a specified period of time has elapsed since the last owner contact. The property, or the proceeds from its sale, is then transferred to the Abandoned Property Fund. When the balance of the principal in the Fund exceeds $500,000, the excess money goes to the Common School Fund. At the end of the year, interest earned on the Abandoned Property Fund is transferred to the General Fund. This interest could be redirected to the Development Fund.

Estimated Revenue

In FY 2000, the Abandoned Property Fund earned $2.6 million in interest.

Funding Option	Estimated Revenue
Diverting 100% of Interest from General Fund	$2,600,000
Diverting 50% of Interest from General Fund	$1,300,000

[5] This rough estimate is the median of the median county home sales prices as determined for each county in the state by the Indiana University Center for Real Estate Studies.
[6] National Association of Realtors: Existing Home Sales.
[7] This rough estimate is the median of the median county home sales prices as determined for each county in the state by the Indiana University Center for Real Estate Studies.
[8] Building Permits data from Stats Indiana (www.stats.indiana.edu/bp).

3. Interest on Sales Escrow Accounts

This is also known as an Interest Bearing Real Estate Trust Account (IBRETA) program. Real estate agents routinely hold money in escrow for short periods of time while real estate sales are finalized. These programs work by asking real estate agents to place that money in interest-bearing accounts and then aggregating the interest.

Viability

In 2006, a rule change was made to enable real estate brokers to voluntarily establish interest-bearing trust accounts, and, with written approval, transfer interest earned on the account to a "fund established for the sole purpose of providing affordable housing opportunities in Indiana that meets the requirements of internal revenue service code 501(c)(3)."

The rule change raises two issues. First, the money earned through this revenue source must go to a recognized 501(c)(3) organization. The Development Fund does not currently have 501(c)(3) status. Second, this is a voluntary program, which reduces the potential for opposition from real estate agents, but will also reduce potential revenues. A coordinated campaign would be needed to educate agents about this option and convince them to participate.

Estimated Revenues

In 2003, there were 145,300 existing home sales in Indiana and 39,420 building permits. We will assume an average escrow payment of $1,000, an average deposit holding time of 45 days, and a five percent administrative fee. While this estimate assumes 100 percent participation from Indiana real estate agents, the voluntary nature of the program means that participation—and thus, revenues—would likely be considerably lower.

Mandatory Program

Number of Sales	Amount of Earnest Money	Number of Days on Deposit	Bank Interest Rate on Statement Savings Accounts			
			1 percent	2 percent	3 percent	4 percent
184,720	$1,000	45	$216,000	$432,000	$648,000	$863,000

Voluntary Program

Number of Sales	Amount of Earnest Money	Number of Days on Deposit	% of Brokers Partici-pating	Bank Interest Rate on Statement Savings Accounts			
				1 percent	2 percent	3 percent	4 percent
184,720	$1,000	45	15%	$32,400	$64,800	$97,200	$129,450
184,720	$1,000	45	30%	$64,800	$129,600	$194,400	$258,900
184,720	$1,000	45	45%	$97,200	$194,400	$291,600	$388,350
184,720	$1,000	45	60%	$129,600	$259,200	$388,800	$517,800

4. Interest on Rental Security Deposits

When landlords rent property, they often collect a security deposit from their tenants. In Indiana, these deposits are unregulated. Many small landlords do not even maintain separate trust accounts for their security deposits. It would not be possible to mandate that every landlord open such an account and report interest earned on it. However, the state could impose a nominal surcharge on the state income tax for all property owners receiving residential rental income. The surcharge could be scaled to equal the estimated annual interest income per unit: between $5 and $20, depending on the interest rate.[9]

Viability

Given that it would involve an annual tax increase for all owners of rental property, it is unlikely that this would be a popular legislative initiative.

Estimated Revenue

According to the 2003 American Community Survey, there are 646,351 rental units in Indiana. Cash rents are paid on 603,768 units, and the median rent is $581 a month. We will assume that the average security deposit is equivalent to one month's rent.

Number of Units	Security Deposit	Bank Interest Rate			
		1 percent	2 percent	3 percent	4 percent
603,768	$581	$3,508,000	$7,016,000	$10,524,000	$14,032,000

5. Interest on Mortgage and Insurance Escrow Deposits

Escrow accounts are set up by mortgage lenders to collect and disburse funds for paying real estate taxes and insurance. These accounts are largely unregulated in Indiana.[10] Part or all of the interest earned on these escrow accounts could be directed to the Development Fund.

Viability

Indiana law would need to be amended to direct such earnings to the Development Fund and to regulate mortgage escrow accounts. This would likely be opposed by mortgage lenders, who currently recapture all interest income. One way to reduce opposition would be to propose an administrative fee to lenders.

Estimated Revenue

The 2003 American Community Survey shows 1,419,239 owner-occupied homes in Indiana, 71 percent of which are mortgaged. David Rosen and Associates estimate that 67 percent of homes with a mortgage have an escrow account. Thus, about 680,749 homes have escrow accounts.

---

[9] David Paul Rosen & Associates. Indiana Housing Trust Fund Feasibility Studies: Program Options, Revenue Options & Leverage Opportunities*.* June 1990.

[10] Ibid.

Type of Escrow	Number of Homes	Average Daily Balance	Bank Interest Rate			
			1 Percent	2 Percent	3 Percent	4 Percent
Property Taxes[11]	680,749	$393	$2,542,000	$5,083,000	$7,625,000	$10,166,000
Homeowners Insurance[12]	680,749	$186	$1,203,000	$2,406,000	$3,609,000	$4,812,000
Total[13]			$3,745,000	$7,489,000	$11,234,000	$14,978,000

6. Unclaimed State Lottery Winnings

Annually, the Hoosier Lottery gives 29 percent of its gross revenues back to the state. In 2003, this totaled $175.6 million. However, the distribution of lottery proceeds is governed by statute, and there is significant competition for funds. As an alternative, some states have dedicated a portion of unclaimed lottery winnings to their Housing Trust Funds.

Viability of Using Lottery Funds in Indiana

Surplus funds are transferred to the Teachers' Retirement Fund and the Pension Relief Fund. Then, any additional surplus monies are transferred to the Build Indiana Fund (BIF). The BIF must transfer $236.2 million a year to the Motor Vehicle Excise Tax Replacement Account. Any money remaining in the BIF after this transfer may generally be used for state and local capital projects. These funds are primarily earmarked for economic development activities.

Unclaimed winnings must be added to the pool from which future prizes are awarded or be used for special promotions. A change of statute would be required to access these monies for the Development Fund. The General Assembly would be unlikely to make such a change, as it could lead to a flood of other applications for the use of unclaimed lottery winnings.

Estimated Revenue

According to Hoosier Lottery officials, unclaimed winnings total between $11 million and $13 million per year. Diverting as little as 10 percent of unclaimed winnings to the Development Fund could yield fairly significant annual revenues.

[11] Median net property tax rates for 2003 were 1.47, according to Stats Indiana (www.stats.indiana.edu/taxframe.html). The 2003 American Community Survey states the median value for an owner-occupied home in Indiana is $106,840. The median tax paid on an owner-occupied single family home in Indiana is therefore calculated at $1,570 ($106,840 / $100 = 1,068 x 1.47 = $1,570). Since property taxes are paid twice a year, the average daily balance would be $393 ($1,570 x 0.25).

[12] According to the National Association of Insurance Commissioners, the average homeowner's insurance premium for Indiana was $373 in 1999. Since homeowner's insurance is paid once a year, the average daily balance would be $186 (373 x 0.5).

[13] Assumes a 5 percent administrative fee charged by mortgage lenders.

Amount of Unclaimed Winnings	Percentage Transferred to Development Fund		
	10 Percent	20 Percent	30 Percent
$12,000,000	$1,200,000	$2,400,000	$3,600,000

7. Community Contribution Tax Credit

Many states have programs to encourage charitable donations by offering tax credits to businesses and individuals who donate to certain programs or causes. A similar tax credit program could be established to benefit the Development Fund.

Viability

The Neighborhood Assistance Program (NAP) currently offers $2.5 million in tax credits annually for distribution by nonprofit agencies to build public-private partnerships for neighborhood-based programs and projects in economically disadvantaged parts of Indiana. NAP tax credits may be applied against Indiana income tax liability. Money earned from the sale of the credits can be used to support a wide range of programs.

A similar program could be established to benefit the Development Fund. Donors to the Development Fund would receive a tax credit equal to between 50 and 100 percent of the value of their contribution. This could be an excellent means of raising money from the private sector.

The existence of the NAP program means that this will not be an alien, and therefore hard-to-sell, concept in the General Assembly. However, it will be necessary to establish the need for additional funds (beyond NAP) that could be earmarked specifically for affordable housing, as opposed to being used for neighborhood development in general.

Estimated Revenue

Amount of Tax Credits	Value of Tax Credit as a Percent of Contribution	Total Revenue
$1 million	100 percent	$1 million
	75 percent	$1.5 million
	50 percent	$2 million
$2 million	100 percent	$2 million
	75 percent	$3 million
	50 percent	$4 million
$3 million	100 percent	$3 million
	75 percent	$4.5 million
	50 percent	$6 million

8. Interest on Counter-Cyclical Revenue and Economic Stabilization Fund

Indiana has a Counter-Cyclical Revenue and Economic Stabilization Fund, also known as the Rainy Day Fund, which helps stabilize revenues during periods of economic recession. When the state's annual growth rate is greater than 2 percent, money is transferred from the General Fund to the Rainy Day Fund during the following calendar year. In years when the state's annual growth rate is less than negative 2 percent, money is transferred from the Rainy Day Fund to the General Fund during the following calendar year. Interest earned on the Rainy Day Fund goes back into the Rainy Day Fund.

The Development Fund cannot seek to take money directly from the Rainy Day Fund. However, it might be possible to have a portion of the interest earned on the Fund each year transferred to the Development Fund.

Viability

Transferring money from the Rainy Day Fund to the Development Fund would require legislative authority. A request to transfer even a small portion of the interest earnings on the Rainy Day Fund could be a difficult sell at a time when budget shortfalls have recently proven the need for a strong and viable source of financial reserves for the State.

Estimated Revenue

According to the State Treasurer's Annual Report, the level of activity in the Fund from FY 1999 to FY 2004 (on an accrual basis) has been as follows:

Year	Average Daily Balance	Total Interest Earned	Interest Rate
2004	$243,739,192	$3,768,444	1.55%
2003	$259,655,632	$3,349,057	1.29%
Average	$251,697,412	$3,558,751	1.42%
2002	$515,404,005	$20,440,516	3.97%
2001	$535,871,007	$31,828,374	5.94%
2000	$525,142,842	$28,188,766	5.37%
1999	$494,647,711	$28,231,904	5.71%
Average	$517,766,391	$27,172,390	5.25%

Using both sets of averages (showing interest earnings in both good and bad years), the following table sets out a range of potential revenues based on the portion of interest earnings that could be transferred to the Development Fund.

Interest Earned	Portion of Interest Being Transferred to Development Fund			
	1 percent	5 percent	10 percent	20 percent
$3,558,751	$36,000	$178,000	$356,000	$712,000
$27,172,390	$272,000	$1,359,000	$2,717,000	$5,434,000

9. Private Activity Bond Surcharge

The federal tax code allows privately owned public-purpose projects to take advantage of tax-exempt financing through Private Activity Bonds. Agencies that allocate or issue bonds realize revenues through fees, a portion of which could be reinvested in affordable housing.

Viability and Estimated Revenue

IHCDA administers the competitive process of recommending developers to the Indiana Finance Authority (IFA), which allocates all multi-family bonds. Bonds are issued by local Economic Development Commissions. Under current statute, IHCDA may only issue bonds to developers receiving federal assistance on their projects, which makes IHCDA less competitive as a bond issuer. If the statute were to give IHCDA broader opportunities to issue multi-family bonds (or to make IHCDA the sole issuer of such bonds in Indiana), it could collect added fees to support the Development Fund. It could charge a one-time fee of 0.75 percent of total bond proceeds upon issuing the bond, and could also charge an annual fee of 0.125 percent of total bond proceeds. The one-time fee could be transferred to the Development Fund and the annual fee could be used to cover the costs of administering the bond. Between 2000 and 2004, Indiana issued an average of $41.2 million in multi-family bonds.[14] If 0.75 percent of total bond proceeds were paid to IHCDA in one-time fees and transferred to the Development Fund, it would raise about $310,000 each year.

Also, over the past 25 years, IHCDA has issued 13,500 Mortgage Credit Certificates (MCCs.)[15] If IHCDA charged $100 per MCC in addition to the regular reservation fee of 1 percent of the mortgage, it would raise $54,000 a year. However, since families applying for MCCs are low-income, this might be seen as taxing the poor to raise money to assist the poor.

10. Residential Homeowner's Property Tax Deduction

Indiana allows property owners to deduct residential property taxes paid for their principal residence from their adjusted taxable gross income (up to $2,500 per year). IHCDA could seek a five percent reduction in the amount of property taxes that each taxpayer may deduct. The funds earned from this change would be directed into the Development Fund.

Viability

In recent years, the Indiana legislature has gone to great lengths to provide property tax relief to homeowners. Thus, though the cost per household would be very low, this funding source would likely be unappealing to legislators because it essentially reduces property tax relief.

[14] Based on data from IHCDA's 2000–2004 Year-End Summaries.
[15] IHCDA's 2003 Annual Report.

Estimated Revenue

Number of Households[16]	Avg. Property Taxes[17]	Total Property Tax Paid	5% of Total Taxes Paid	Total Revenue[18]	Avg. Cost
1,419,239	$1,570	$2,228,205,000	$111,410,000	$3,231,000	$2.28

Sources That Do Not Require Legislative Approval

11. Accepting Donations in Return for Allocation Points

There is significant competition for Low-Income Housing Tax Credit allocations in Indiana. IHCDA could allow applicants to make a donation to the Development Fund in return for points on their tax credit application. Developers wishing to donate would include a commitment as part of their application. Commitments would only be payable if the developer received an award, and the donation would be made before the first release of credits.

Viability

Only for-profit developers are likely to be willing and able to make a donation in return for allocation points. This means that nonprofit applicants need to have an alternate means through which they could raise an equivalent number of points. If this were not available, it would likely lead to an outcry among nonprofit developers in the state. Also, this proposal could create a situation in which smaller for-profit developers who cannot afford to make donations would be forced onto the sidelines. If IHCDA pursues this revenue source, it will need to ensure that it does not transform the tax credit program into a funding source that is essentially only available to large-scale for-profit developers.

Estimated Revenue

Revenues would depend on the size of the donation required in order to qualify for points. We will assume a donation set at $500 per unit per point, for a maximum of three points. In 2004 and 2005,[19] for-profit developers proposed an average of 77 units each, which would equate to $38,500 per point. Developers would therefore have to contribute an average of $115,500 in order to secure all three points. In 2004, for-profit developers submitted applications for 3,614 units, of which 1,877 were funded.[20] This would have raised $938,500 per point, for a total of $2,815,500 for three points.

---

[16] 2003 American Community Survey.

[17] 2003 median net property tax rates were 1.47 (Stats Indiana). The median value for an owner-occupied home is $106,840 (2003 American Community Survey). Median tax for an owner-occupied single-family home in Indiana is therefore estimated at $1,570 ($106,840/$100 = 1,068 x 1.47 = $1,570).

[18] The 2003 American Community Survey shows 1,419,239 owner-occupied housing units in Indiana. At average property taxes of $1,570, this is a total deduction of $2.23 million; 5 percent of this figure is $1.11 million. Indiana's income tax rate is 3.4 percent, and the effective tax rate is 2.9 percent. This yields $3,231,000, an average per-household loss of $2.28.

[19] The 2005 numbers do not include the final sweep-up round.

[20] Data compiled by Melanie Reusze, Manager, Tax Credit Allocations, Indiana Housing and Community Development Authority, August 17, 2005.

Number of Units Applied For	Number of Units Funded	Dollars Per Point	Number of Points	Dollars Raised
3,614	1,877	$500	1	$938,500
3,614	1,877	$500	2	$1,877,000
3,614	1,877	$500	3	$2,815,500

12. Tax Credit Monitoring Fees

IHCDA currently charges developers an annual fee of $20 per unit if they submit reports online and $25 per unit if they submit their reports on paper. IHCDA could raise money for the Development Fund by increasing its annual tax credit monitoring fees.

Viability

A disadvantage to this proposal is that the money would be raised by charging a fee to the very developers who need money in order to build more affordable housing. However, with such a small per-unit fee, this is not likely to be a serious problem.

Estimated Revenue

In 2004, monitoring fees charged by IHCDA raised $605,000 in revenues. An increase of $10 per unit could generate revenues in the neighborhood of $270,000 a year.

2004 Revenues	Average Per-Unit Cost	$10 Surcharge	Estimated Revenues
$605,000	$22.50	$10	$269,000

13. Increase in Tax Credit Reservation Fee

Applicants who receive a reservation of tax credits for a proposed development from IHCDA must pay a reservation fee equal to 6 percent of their annual tax credit allocation. This fee could be increased to 6.5 percent, with the additional fee going to the Development Fund. Or, the fee could be increased by 0.25 percent. IHCDA could still transfer 0.5 percent into the Fund, but could slightly decrease the resources going into other areas of agency operations.

Viability of Increasing the Reservation Fee

Developers will not like the increase, but will have little choice other than to pay it. As with many of the other fee and fine options, IHCDA should be careful to avoid creating the image that it is robbing Peter to pay Paul.

Estimated Revenues

Estimated revenues from this source, based on a 0.5 percent reservation fee leveled against both the 4 percent and 9 percent tax credit allocations, would be about $100,000 per year.

14. Tax Credit Fines

IHCDA could levy fines against developers who fail to fulfill their contracts or do not build their units according to the agreed-upon specs.

Viability

Fines are not an option with HOME dollars, and it would be too complex to levy them against Development Fund projects, but it would be possible to levy them against tax credit projects. In order for this option to be palatable, it would be important for such a policy to include exemptions for cases in which a developer was unable to fulfill their contract for reasons beyond their control and to make the fine an option of last resort.

Estimated Revenues

As of 2005, there were approximately 440 tax credit properties that were subject to IHCDA monitoring and compliance. Between 2000 and 2004, an average of 75 tax credit projects were in noncompliance each year. If half of noncompliance issues led to fines, and if fines were as high as $10,000, they could generate $370,000 a year for the Development Fund.

Tax Credit Properties	Average Number in Noncompliance[21]	If Half of Noncompliant Properties are Fined	Fine	Estimated Revenues
440	75	37	$10,000	$370,000

15. Challenge Grants

A challenge grant would involve seeking out a private foundation with an interest in affordable housing that would promise a significant donation to the Development Fund if the General Assembly matched that contribution with an equal or greater amount of government support. The challenge grant could be a large one-time gift or a smaller annual gift.

Viability

A challenge grant could help catalyze legislative approval for other funding sources. However, the size and type of the grant could affect the amount and type of governmental funding that would be available. Also, to obtain a challenge grant, IHCDA would need to demonstrate community support for the Development Fund, which would require a fundraising campaign that would take time and energy. If the campaign were a failure, it could be a barrier to obtaining a challenge grant. Conversely, if the campaign itself was successful at raising funds, but IHCDA failed to obtain a challenge grant, then the successful campaign could provide a perceived reason not to finance the Development Fund with government dollars.

Estimated Revenue

There is no way to estimate how much revenue it might be possible to raise through a challenge grant, as this is highly dependent on both the capacity and the interests of the foundations issuing the challenge. However, it is important to keep in mind that if the Development Fund receives a challenge grant, that may well serve as the de facto funding goal. Thus, a small challenge grant may lead to a small amount of government funding.

[21] Using data from IHCDA's 2000-2004 Year End Summaries, 75 properties represents the average number of noncompliant properties in each of the past five years.

16. Social Investment Funds

Indiana could solicit investments from pension funds and social investment funds. Investors could designate a rate of return from 0 percent to 1 percent below market rate, and would be asked to invest their funds for a minimum of one year. The money could then be loaned to nonprofit housing developers at below-market rates for short-term construction loans.

Viability

Establishing a program to seek out investors in the Development Fund would require legislative authority. At the time of the Advisory Committee's analysis, Indiana statute did not allow the Development Fund to accept loans or investments (except from PDIF) and use those loans to raise income. Thus, before such an investment program could be pursued, it was necessary to receive legislative authority. With this authority, Indiana could solicit investments from a range of sources, thereby leveraging private as well as public resources.

This strategy has already been accomplished. IHCDA successfully obtained authority for the Development Fund to seek private and philanthropic contributions during the 2006 legislative session, as part of a larger set of technical changes to the Development Fund statute in House Bill 1261.

It would likely require significant staff time, at least initially, to identify social investors and introduce them to the Development Fund. Because of the rather low rate of return that the Fund could offer, socially motivated investors would be the only viable groups to seek out. It would also be necessary to investigate the legality of a state Housing Trust Fund accepting loans and investments from religious organizations and religious order pension funds.

Estimated Revenue

There is no clear way to estimate revenues for this funding option. Revenues will depend on how aggressively the investment program is pursued. However, if the success of the Michigan Housing Trust Fund (which has a similar program) is any indication, Indiana might hope to raise $300,000 a year.

17. New Markets Tax Credits

The goal of the New Markets Tax Credits (NMTC) program is to attract investment for non-rental real estate projects and business development in low-income communities. Since its inception in 2002, Indiana has received $81million in investment authority, resulting in about $31.5 million in tax credits to investors. In the past, the Indiana Redevelopment Corporation (IRC) and the Community Bankers Association have each submitted applications for statewide tax credit allocations. Given the work involved and the perceived competition, IHCDA approached IRC about the possibility of collaborating on a future application rather than submitting a third statewide application.

Viability

IRC was receptive to this idea, and two models were discussed. In the first, IRC would request an additional $20 million in its application, which would be passed through to the Development Fund. In the second scenario, IRC would request an additional $20 million in its application and would contract with IHCDA to identify, underwrite, and manage the portfolio. IRC's application consultant has strongly recommended that IRC not pass through tax credit authority to IHCDA due to added transaction and monitoring costs. The second model, while not under the direct control of the Development Fund, would provide $20 million in leverage to Development Fund projects and demonstrate its willingness to explore new public-private partnerships.

However, recent developments may affect the viability of this funding option. The President's FY 2007 budget does not include funds for New Markets Tax Credits. While there may still be an opportunity to IRC and IHCDA to collaborate on a joint application for FY 2006 funds, this could be the final funding round if the NMTC program is not restored.

Estimated Revenue

No hard numbers have been proposed for the services IHCDA would provide under either model. However, IRC's investment policy is that no more than 10 percent of its investment authority may be spent on administrative fees. IHCDA might realistically negotiate 2 percent or $400,000 for its services, as well as the $20 million in leverage.

Previously Utilized Revenue Sources

18. Bond Refinancing

It may be possible to refinance another bond, as IHCDA did with the 1993 Multi-Unit Indenture refunding that resulted in a Financial Adjustment Factor between IHCDA and HUD. That refinancing resulted in revenues of approximately $130,000 a year for 10 years.

Viability

Whether or not it would be possible to repeat this would depend on whether or not there are currently any bonds that IHCDA would be in a position to try and refinance.

Estimated Revenue

If the outcome were about the same as in 1993, this could result in revenues of approximately $100,000 a year.

Overview of Revenue Sources

Revenue Source	Assumptions	Estimated Revenue
Sources Requiring Legislative Approval		
Document Processing Fee on ALL Real Estate-Related Documents	$3 Surcharge	$4,071,000
	$5 Surcharge	$6,785,000
	$10 Surcharge	$13,570,000
Real Estate Transfer Tax	$0.25/$1000	$3,917,000
	$0.50/$1000	$7,835,000
	$0.75/$1,000	$11,752,000
	$1.00/$1,000	$15,669,000
Unclaimed Property Fund	Diverting 100% of Interest from General Fund	$2,600,000
	Diverting 50% of Interest from General Fund	$1,300,000
Interest on Residential Real Estate Sales Escrow Accounts (Mandatory)	Bank Interest Rate of 1%	$216,000
	Bank Interest Rate of 2%	$432,000
	Bank Interest Rate of 3%	$648,000
	Bank Interest Rate of 4%	$863,000
Interest on Residential Real Estate Sales Escrow Accounts (Voluntary)	Percent of Brokers Participating: 15%	$32,400 - $129,600
	30%	$64,800 - $259,200
	45%	$97,200 - $388,800
	60%	$129,450 - $517,800
Interest on Rental Security Deposits	Bank Interest Rate of 1.0%	$3,508,000
	Bank Interest Rate of 2.0%	$7,016,000
	Bank Interest Rate of 3.0%	$10,524,000
	Bank Interest Rate of 4.0%	$14,032,000

Interest on Mortgage & Insurance Escrow Accounts	Bank Interest Rate of 1.0%		$3,745,000
	Bank Interest Rate of 2.0%		$7,489,000
	Bank Interest Rate of 3.0%		$11,234,000
	Bank Interest Rate of 4.0%		$14,978,000
Unclaimed Lottery Winnings	10% of Unclaimed Winnings		$1,200,000
	20% of Unclaimed Winnings		$2,400,000
	30% of Unclaimed Winnings		$3,600,000
Community Contribution Tax Credit	$1 Million Tax Credit	100% of Contribution	$1,000,000
		75% of Contribution	$1,500,000
		50% of Contribution	$2,000,000
	$2 Million Tax Credit	100% of Contribution	$2,000,000
		75% of Contribution	$3,000,000
		50% of Contribution	$4,000,000
	$3 Million Tax Credit	100% of Contribution	$3,000,000
		75% of Contribution	$4,500,000
		50% of Contribution	$6,000,000
Interest on Counter-Cyclical Economic Stabilization Fund	Good Economic Years for State	1% of Interest	$272,000
		5% of Interest	$1,359,000
		10% of Interest	$2,717,000
		20% of Interest	$5,434,000
	Bad Economic Years for State	1% of Interest	$36,000
		5% of Interest	$178,000
		10% of Interest	$356,000
		20% of Interest	$712,000

Sales Tax on Residential Building Materials	2008	5% Over Base Year	$450,000
		10% Over Base Year	$900,000
	2011	5% Over Base Year	$2,000,000
		10% Over Base Year	$4,000,000
	2015	5% Over Base Year	$4,800,000
		10% Over Base Year	$9,600,000
	2020	5% Over Base Year	$9,770,000
		10% Over Base Year	$19,545,000
Surcharge on Local Government Bond Issues	Surcharge as a Percentage of Total Bond Volume	0.25%	$6,250,000
		0.5%	$12,500,000
		0.75%	$18,750,000
		1.0%	$25,000,000
Private Activity Bond Surcharge	Multi-Family Bonds (0.75%)		$310,000
Homeowners Property Tax Deduction	Deduct 95% of Property Taxes		$3,231,000
Sources That Do Not Require Legislative Action			
Donations in Return for Tax Credit Allocation Points	1 Point		$938,500
	2 Points		$1,877,000
	3 Points		$2,815,500
Fees/Fines for Tax Credit Monitoring	Fees		$269,000
	Reservation Fee		$100,000
	Fines		$370,000
Challenge Grants	Cannot Estimate		
Social Investment Fund Contributions	$300,000		
PDIF Bond	$3,800,000 (One Time)		
Bond Refinancing	$100,000		
New Markets Tax Credits	$20,000,000 (One Time)		

Appendix J

Overview of Potential Revenue Sources

Revenue Source	Assumptions		Est. Revenue
Sources Requiring Legislative Approval			
Document Processing Fee on All Real Estate-Related Documents	$3 Surcharge		$4,071,000
	$5 Surcharge		$6,785,000
	$10 Surcharge		$13,570,000
Real Estate Transfer Tax	$0.25/$1000		$3,917,000
	$0.50/$1000		$7,835,000
	$0.75/$1,000		$11,752,000
	$1.00/$1,000		$15,669,000
Unclaimed Property Fund	Diverting 5% of Principal from Common School Fund		$1,500,000
	Diverting 10% of Principal from Common School Fund		$3,000,000
	Diverting 100% of Interest from General Fund		$2,600,000
	Diverting 50% of Interest from General Fund		$1,300,000
Interest on Residential Real Estate Sales Escrow Accounts (Mandatory)	Bank Interest Rate of 1.0%		$216,000
	Bank Interest Rate of 2.0%		$432,000
	Bank Interest Rate of 3.0%		$648,000
	Bank Interest Rate of 4.0%		$863,000
Interest on Residential Real Estate Sales Escrow Accounts (Voluntary)	Percent of Brokers Participating	15%	$32,400 - $129,600
		30%	$64,800 - $259,200
		45%	$97,200 - $388,800
		60%	$129,450 - $517,800

Revenue Source	Assumptions		Est. Revenue
Interest on Rental Security Deposits	Bank Interest Rate of 1.0%		$3,508,000
	Bank Interest Rate of 2.0%		$7,016,000
	Bank Interest Rate of 3.0%		$10,524,000
	Bank Interest Rate of 4.0%		$14,032,000
Interest on Mortgage & Insurance Escrow Accounts	Bank Interest Rate of 1.0%		$3,745,000
	Bank Interest Rate of 2.0%		$7,489,000
	Bank Interest Rate of 3.0%		$11,234,000
	Bank Interest Rate of 4.0%		$14,978,000
Unclaimed Lottery Winnings	10% of Unclaimed Winnings		$1,200,000
	20% of Unclaimed Winnings		$2,400,000
	30% of Unclaimed Winnings		$3,600,000
Community Contribution Tax Credit	$1 Million Tax Credit	100% of Contribution	$1,000,000
		75% of Contribution	$1,500,000
		50% of Contribution	$2,000,000
	$2 Million Tax Credit	100% of Contribution	$2,000,000
		75% of Contribution	$3,000,000
		50% of Contribution	$4,000,000
	$3 Million Tax Credit	100% of Contribution	$3,000,000
		75% of Contribution	$4,500,000
		50% of Contribution	$6,000,000

Revenue Source	Assumptions		Est. Revenue
Interest on Counter-Cyclical Economic Stabilization Fund	Good Economic Years for State	Transferring 1% of Interest	$171,000
		Transferring 5% of Interest	$853,000
		Transferring 10% of Interest	$1,705,000
		Transferring 20% of Interest	$3,410,000
	Bad Economic Years for State	Transferring 1% of Interest	$36,000
		Transferring 5% of Interest	$178,000
		Transferring 10% of Interest	$356,000
		Transferring 20% of Interest	$712,000
Sales Tax on Residential Building Materials	2008	5% Taxes Over Base Year	$450,000
		10% Taxes Over Base Year	$900,000
	2011	5% Taxes Over Base Year	$2,000,000
		10% Taxes Over Base Year	$4,000,000
	2015	5% Taxes Over Base Year	$4,800,000
		10% Taxes Over Base Year	$9,600,000
	2020	5% Taxes Over Base Year	$9,770,000
		10% Taxes Over Base Year	$19,545,000
Surcharge on Local Government Bond Issues	Surcharge as a Percentage of Total Bond Volume	0.25%	$6,250,000
		0.5%	$12,500,000
		0.75%	$18,750,000
		1.0%	$25,000,000
Private Activity Bond Surcharge	Multi-Family Bonds (0.75%)		$310,000

Revenue Source	Assumptions	Est. Revenue
Residential Homeowners Property Tax Deduction	Deduct 95% of Property Taxes from Taxable Income	$3,231,000
Unspent TANF Funds	No Funds Available Since 2003	N/A
Voluntary Contributions on State Income Tax Returns	Contributions Equal 50% of Existing Nongame Wildlife Fund Contributions	$191,000
Eviction Court Fees	3% of Low-Income Tenants Evicted Per Year; $10 Surcharge per Eviction Filing	$71,800
Sale of Special Recognition License Plates		$40,000
Per-Lot Fees Charged to Manufactured Housing Parks Owners	$12 Per Lot	$1,114,000
	$20 Per Lot	$1,856,000
Sources That Do Not Require Legislative Action		
Bond Refinancing		$100,000
Challenge Grants		Cannot Estimate
Contributions from Social Investment Funds		$300,000
IHCDA Contributions		$500,000
New Markets Tax Credits		$20,000,000 (One Time)
PDIF Bond		$3,800,000 (One Time)

Appendix K

Programmatic Options for the Development Fund

Grant Programs	• Operating Grants for Nonprofit Agencies • Fair Housing • Foreclosure and Eviction Prevention • Emergency/Domestic Violence Shelter Operating Grants • Rental Security Deposits • Promoting Energy Efficiency • Architectural Plans • Neighborhood Revitalization Planning Programs • Housing Research Grants • Training and Technical Assistance
Loan Programs	• Limited Equity Cooperatives (LECs) • Land Trusts • Rehabilitation of 'Expiring Use' Rental Properties
Grant Or Loan Programs	• Assisting Residents of Manufactured Home Parks • Operating and Maintenance Fund • Promoting Employer-Assisted Housing Programs • Providing Support to Local Housing Trust Funds
Special Needs Housing Programs	• Home Modifications • Universal Design Program • Tenancy Preservation for People with Disabilities • Home Remodeling for Adoptive and Foster Parents • Bridge Rental Subsidies for People with Disabilities • Supporting Resident Service Coordinators • Funding Supportive Housing or Assisted Living