Center for Community Change

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Lessons from State Housing Trust Funds on Providing Housing for Extremely Low Income Households

2009

About this Report ...

The National Housing Trust Fund was created in 2008 with the passage of the Housing and Economic Recovery Act of 2008. The National Housing Trust Fund was the result of years of advocacy on the part of the National Low Income Housing Coalition and its allies.

The National Housing Trust Fund is the first new federal housing production program since the HOME program was created in 1990 and the first new production program specifically targeted to extremely low income households since the Section 8 program was created in 1974.

Distinctive among the requirements in this legislation is that the funds must benefit those households earning no more than 50% of the area median income. At least 90% of the funds must be used for the production, preservation, rehabilitation, or operation of rental housing. Of these funds, 75% must benefit those households earning no more than 30% of area median income or households with incomes below the federal poverty level, generally referred to as extremely low income households.

Local and state housing trust funds have been in existence since the late 1970's, providing on-going dedicated sources of public funding to support affordable housing. These funds are universally recognized as the most flexible money available to support critical housing needs.

This brief report is intended to assist the conversation regarding how we can provide housing to address these challenging needs. This report is by no means complete--it paints a small picture of what the universe of housing trust funds is doing to address extremely low income housing needs. We surveyed twelve state housing trust funds selected for their emphasis on serving this population. Ten responded in the limited time frame available and we have summarized their responses on the following pages. Any mistakes or misrepresentations are entirely mine.

We hope this report advances the decisions made in implementing the National Housing Trust Fund so that we support constructive and successful model programs addressing the most critical housing needs faced by this nation. We know we can do this. And what would it mean for us to say we can't!

Mary E. Brooks
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The Housing Trust Fund Project operates as a clearinghouse of information on housing trust funds throughout the country and provides technical assistance to organizations and agencies working to create and implement these funds.

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Cover Photo: Rosemont Commons in Portland, Oregon.

Introduction

No one suggested it was easy to provide decent, safe, affordable housing for households earning no more than 30% of the area median income. And, no one suggested it was ***not*** possible.

We asked for advice from housing advocates and others on developing housing for extremely low income households, costing no more than 30% of their income, and that would remain affordable for as long as feasible. These responses are based on actual experience with an eye toward implementation of the National Housing Trust Fund and how this experience best advises us to move forward.

Two key issues are essential in this discussion:

(1) ***financing the construction and/or rehabilitation of the housing*** affordable to households earning no more than 30% of the area median income.

(2) ***on-going maintenance and operating costs*** to ensure continued affordability and quality housing.

Several underlying themes occur throughout this discussion. First, is the ***importance of flexibility in funds***, given that markets differ significantly throughout the country. Second, is the recognition that, in most instances, ***some form of subsidy will be required***, both initially and long-term. Third, and perhaps most important, is that if the National Housing Trust Fund were to establish precedent for addressing the housing needs of our extremely low income households, ***the market will respond*** ... meaning, make the funds available in a wise and responsive manner, and the development community will make it work.

Jacob and Isaiah play on the playground outside of Zagami House, a development sponsored by SOME. Zagami House provides safe, affordable supportive-service housing for twelve families with 20 children.

Washington DC
Housing Production Trust Fund

Washington Post, April 20, 2007:

"The trust fund provides direct subsidies to developers to set aside units or, in some cases, entire buildings that they rent or sell for less than market rates. The developers must agree that rental units will remain affordable for 40 years and ownership units for 15 years.

The fund was established in the late 1980s but did not receive significant money until fiscal 2001, when the D.C. Council dedicated a portion of deed and recordation taxes to it. ... It is required to devote 40 percent of its expenditures to those with very low incomes, particularly families of four earning less than $28,350 a year, which is 30 percent of the area's median income.

Units made possible by the fund have been built in every ward except Ward 3, which includes Georgetown. ... Such groups as SOME Inc., for So Others Might Eat, said the fund – with its stable revenue source – enables nonprofits to work on projects that developers would not undertake."

A Few Model Programs ...

Washington Housing Trust Fund Operating and Maintenance Fund

The Operating and Maintenance Fund is part of Washington's Housing Trust Fund and is administered by the Department of Community, Trade and Economic Development. The purpose of the Operating and Maintenance Fund is to support operating and maintenance costs of housing developments or units within developments that are affordable to extremely low income persons with incomes at or below 30% of the area median income.

Funds are made available through two avenues. For existing Housing Trust Fund projects that have received support from the Trust Fund itself, the units must require a supplement to rent revenue to cover ongoing operating expenses. The subsidy from this Fund enables housing to be affordable to a broader range of extremely low-income households than would otherwise be possible. Funds can be committed to up to five years and do not generally exceed 20 years. Units receiving or occupied by tenants that receive federal Section 8 funds are not eligible. Funds are used for budget gap funding and one-time reserve deposits. Rents must be based on what is affordable to an extremely low income household and published rent limits by the Washington State Housing Finance Commission.

For the Rent Buy-Down program, created in 2006, the focus is to encourage projects to lower rents charged to extremely low-income households in those projects serving households with incomes up to 80% of the area median income. The loss in rental income is covered by the program, appropriate to the number of units expected to be available to extremely low income households.
The Operating and Maintenance Fund concept is also used in Seattle's Housing Levy Program. This program provides a subsidy commitment for 20 years.

Washington reports that close to 70% of the housing supported through the state Housing Trust Fund serve households at or below 30% of the area median income. About half of these homes are supported by Section 8 subsidies. Another 10-15% are supported by the Operating and Maintenance Fund. Another 10-15% have other subsidies, either special needs subsidies or other leveraged funds.

The experience in Washington suggests that subsidies are essential to make housing work for this income level. Project based rental assistance would be a good component to have available. However in addition, most of these projects are covering expenses, but just barely. As a consequence replacement and maintenance issues suffer. A second component is to have adequate reserves to cover these ongoing costs.

Washington state has been as thoughtful and analytical as any, regarding how it can best spend its resources to support housing needs throughout the state. Check our their reports at: http://www.commerce.wa.gov/site/1163/default.aspx.

Tyree Scott Apartments inclues 21 units of affordable housing for families and individuals. Sponsored by the Low Income Housing Institute in Seattle.

North Carolina Housing Trust Fund
Housing 400 Program

The North Carolina Housing Finance Agency created a separate funding area in the state Housing Trust Fund called the Housing 400 or the Key Program. The goal was to create 400 units of housing affordable to those on SSI-level income.

The Housing Trust Fund covers the construction costs and a separate funding source that goes through the North Carolina Health and Human Services covers the operating costs to finance independent supportive apartments for persons with disabilities. The 400 unit goal of the Key Program was exceeded with awards to create 430 units.

The Agency leverages the Housing 400 money in the Trust Fund with other rental development money in the form of federal and state tax credits, HOME, undesignated Trust Fund dollars, other federal subsidies, and funds from local governments and banks.

Three programs originally implemented the Initiative. Units for people with disabilities with incomes at or below 30% median income are referred to as targeted units. The largest producer of targeted units is the Housing Credit program, which requires that 10% of all HC units be targeted units. The Supportive Housing Development 400 program promotes small-scale stand-alone rental developments. All units produced in this program are targeted units. The Preservation Loan program creates targeted units in properties that request rehabilitation funds for older, federally subsidized apartments. PLP requires that the greater of 5 units or 10% of all units be targeted units. All targeted units are eligible for operating assistance through the Key Program.

With the increase in recurring operating subsidy, a fourth program was added in 2007 that allowed properties previously funded by the Agency under all Agency rental development programs to voluntarily create targeted units. A maximum of 20% of all units could become targeted units and be eligible for the Key Program funds.

Springfield Gardens is a development of 86 family apartments that fits seamlessly into the surrounding multi-use community on the eastern edge of Charlotte.

The two- and three-bedroom garden apartments range from 904 to 1,191 square feet. Amenities include a multipurpose room, a business center, community gardens, a playground, and a pedestrian link to the nearby shopping center. The development includes 10 fully accessible apartments.

Rents are affordable to families with incomes below 60% of median, with a quarter of the apartments affordable to those with incomes as low as 30%. The development was financed with a bank loan, federal and state funds.

To date, 893 units targeted for person with disabilities with incomes at or below 30% of median income have been awarded. The new housing is distributed from Beaufort to Chowan in the east, Buncombe and Haywood in the west. The apartments are located in towns with populations ranging from 671,588 (Charlotte) to 1,386 (Clyde).

The North Carolina experience suggests that flexibility is key reflected in the ability to use the Key Program funds with other construction funds.

Oregon
Housing Development Community

The Oregon Housing Fund, administered by the Oregon Housing and Community Services, secured a dedicated source of public funding this year--the document recording fee. The Oregon Housing Fund consists of five separate accounts or programs.

The Oregon housing development community identified two key ways in which housing has been provided to extremely low income households:

(1) Projects incorporating many layers of financing, including federal low income housing tax credits, housing trust fund grants, local CDBG or HOME funds, tax increment financing from urban renewal districts, housing bonds, among others.

(2) Mixed income projects whereby the higher rent units help subsidize other apartments affordable to extremely low income households.

Some noted that vouchers can be helpful, if not critical, in the financing mix, but tenant based vouchers do not affect underwriting and even project based vouchers typically have a limited term of affordability. It was also noted that debt-free financing is helpful, if not essential, and that there was some expectation that the new funding at the state level would enable larger direct grants to projects to help lower rents.

Portland has been successful with several residential developments serving a mix of incomes, including housing affordable to extremely low income households. Most included numerous funding sources and local/state fee waivers. Some included tax increment financing, federal low income housing tax credits, CDBG and HOME funds, equity or private loans, along with state housing trust funds. None included project based vouchers. Portland has a 60 year long term affordability requirement.

Thirteen Portland housing developments were highlighted providing 1,179 housing units and ranging from a 4 unit development to 326 housing units. Of these, 438 homes were targeted to extremely low income households. All of these developments served a wide range of income groups.

Douglas Meadows incorporates green building techniques into a small affordable housing project. Human Solutions sponsored this eight unit building with large apartments affordable to households earning no more than 50% of area median income, with two apartments set aside for extremely low income families.

Hazelwood Station, sponsored by Rose CDC, contains one, two, three and four bedroom apartments located in northeast Portland. Of the 60 apartments, 13 are available to extremely low income households; 22 to very low income households; and the remaining 25 apartments to low income households.

Texas
Tax Credit Exchange Program

The American Recovery and Reinvestment Act of 2009 contained a provision allowing the limited exchange of tax credits granted under the Low Income Housing Tax Credit program for cash grants. The Texas Department of Housing and Community Affairs adopted a policy providing incentives for developments to increase the number of units reserved for extremely low income households in exchange for a higher cash price for their tax credits, as well as, a greater claim to the residual project value.

According to a recent analysis, 59% of all applicants to the exchange program offered to provide additional extremely low income housing units--potentially creating 883 housing units affordable to this population.

The Tax Credit Exchange Program allows states to collect recent unused low income housing tax credits and exchange them for cash from the Treasury Department. States receive 85 cents per dollar of tax credit, multiplied by ten, for the number of years that investors would have received the benefits of a tax credit. This money can then be reallocated as project grants.

The Texas Department of Housing and Community Affairs will increase the amount of TCEP money a development will receive per tax credit exchanged based on any additional homes targeted to people with extremely low incomes. If a project provides no additional targeted units beyond those in its original tax credit application, it will receive a maximum of 77 cents on the dollar. If the targeted units are increased by 10% or 20%, the projects will be eligible to receive 81 and 85 cents, respectively.

Where possible, TDHCA will provide TCEP money in the form of an equity partnership investment and will retain a minimum stake as a limited partner with a right to keep 20% of any net cash flow, residual funds, and/or net sale proceeds. To strengthen the targeting incentives, TDHCA also reduces the percentage of the potential cash distribution where a commitment is made to increase the units affordable to extremely low income households. The low income housing tax credit program has a 30 year affordability requirement.

Green Doors in Austin, Texas provides permanent housing with supportive services to fomerly homeless individiuals and families. At Glen Oaks Corner, the head of the household for each of these families has a documented disability. These single-family homes are clustered in a residential neighborhood and received a five-start green rating for their energy efficiency and green building practices.

Illinois
Rental Housing Support Program

The Illinois Rental Housing Support program is the nation's largest state rental assistance program. The RHS program, administered by the Illinois Housing Development Authority, will provide rent subsidies for an estimated 4,000 households. This state housing trust fund program is funded through the dedication of document recording fees and is based on the successful Chicago Low Income Housing Trust Fund experience.

The program is designed to utilize Local Administering Agencies (LAAs) that will manage the program in local areas. Local Administering Agencies will apply for funding and will contract directly with landlords to provide units for the program. LAAs will also work with the landlords in providing outreach to potential tenants. The Rental Housing Support Program is unit based, so the subsidy stays with the unit, not the tenant. The Program is targeted to households earning no more than 30% of the area median income with half of the funds serving those earning no more than 15% of the area median income. Funds are provided on a multi-year basis.

The Long Term Operating Support Program is part of the Rental Housing Support Program. The goal of the LTOS program is to increase the supply of affordable housing to households earning at or less than 30% of the area median income by providing a long term, unit based, rent subsidy to new developments of affordable housing.

Long Term Operating Support Program grants provide funding to a project on an ongoing basis, equal to the difference between the approved rent for the LTOS unit and the estimated amount of the tenant contribution for extremely low and severely low-income households for the defined period of the grant. The LTOS grant term can be up to 15 years, but not exceed 30 years.

The Chicago Low Income Housing Trust Fund supports three programs. (1) The Rental Subsidy Program provides annual rental subsidies to owners of qualified buildings or developments located in the City of Chicago. This program reduces rents on a specified number of units to a level that is affordable for very low-income individuals and families. The Trust Fund is required to use at least 50 percent of its resources for households earning less than 15 percent area median income and the balance of its resources for households earning 16 to 30 percent area median income.

(2) The Multi-year Affordability through Upfront Investment supplies interest free forgivable loans to replace up to fifty percent of a developer's private first mortgage loan. The resulting savings are used to reduce the rents of very low-income tenants earning no more than thirty percent of the area median income.

(3) The Supportive Housing Program provides rental assistance and a comprehensive package of supportive services to help homeless individuals and families with disabilities move from shelters and transitional housing into permanent housing.

The Nathalie Salmon House is owned by the Chicago-based nonprofit organization HOME (Housing Opportunities and Maintenance for the Elderly)--the first organization to offer inter-generational living in Chicago. The building has units for independent seniors as well as for those who need assistance. For nearly fifteen years, funding from the Chicago Low Income Housing Trust Fund has subsidized 30 of the almost 60 low-income seniors who live in the building.

New Jersey
Deep Subsidy Program
Special Needs Housing Trust Fund

New Jersey has recognized the challenges of providing housing to extremely low income households--acknowledging that it takes large amounts of subsidy funds to reduce the capital costs of housing along with ongoing operating subsidies.

The state's housing trust fund is the Balanced Housing Program which set aside $10 million for a Deep Subsidy Program in 2006/2007. This program provided development subsidies to housing developments targeting households at 30-35% of the area median income. The program layered this funding on top of other existing financing programs. The state also has a State Rental Assistance Program, initially funded at $25 million. Funds are reserved for senior citizens, homeless families with children, applicants currently on the waiting list, and project based assistance.

Fairview Village is a model garden city design incorporated into the redevelopment of Yorkship Square. This development involved the rehabilitation of four vacant buildings the construction of two new building to create 72 apartments and community space. The second phase added another 40 apartments and included funds from the deep subsidy program.

In addition, the Council on Affordable Housing gives municipalities an incentive in the form of two units of credit toward meeting their affordable housing needs for every rental or for sale unit provided that is affordable to extremely low income households.

New Jersey also implements its Special Needs Housing Trust Fund. Most the housing units funded have some form of project based rental assistance or operating subsidy. Many of these projects have project based rental assistance from the State Project Based Rental Assistance Program--a ten year award subject to annual funding and renewable. Other housing developments layer different sources of funding, including federal, state and private funds, including project based operating subsidies from other state services programs.

The New Jersey Special Needs Housing Trust Fund also sets aside one year of operating expenses in an escrow account that is maintained by the New Jersey Housing and Mortgage Finance Agency, which administers the trust fund. Most housing developments are deed restricted for the life of the mortgage.

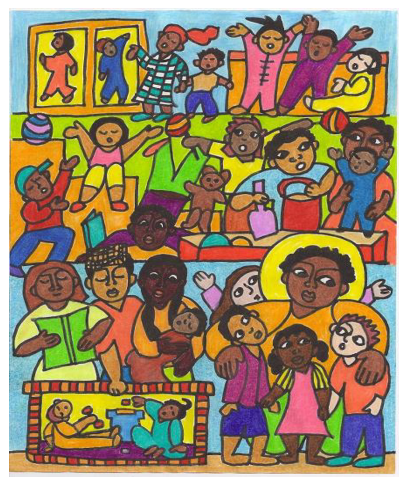
Washington DC
Housing Production Trust Fund

Washington, DC's Housing Production Trust Fund contains a requirement that 40% of the funds must be expended on housing affordable to households earning no more than 30% of the area median income.

For FY2007, the Department of Housing and Community Development reported that they expended \$29.2 million--40% of the total funds expended, to support 409 housing units for extremely low income households. In FY2008, the Department reported that they expended \$44 million--41% of the total funds expended, on 824 housing units for this population. Rental units supported through the Housing Production Trust Fund must remain affordable for 40 years.

These housing developments include renovations of project based Section 8 properties, supportive housing projects, limited equity coops, as well as, reserved set-aside units in mixed income housing developments. In addition, the Districts' Rent Supplement Program is used exclusively to provide rent subsidies for households at or below 30% of the area median income and has been used to finance some 1,000 units of project or sponsor-based housing development, at times in conjunction with the Housing Production Trust Fund awards.

Enterprise Community Investment, Inc., Jubilee Housing and Jubilee JumpStart received Housing Production Trust Fund dollars to rehabilitate this 27 unit building in the Adams Morgan community. More than half of the apartments in Ontario Court will be affordable to those earning no more than 30% of the area median income. The Jubilee Jumpstart Early Childhood Development Center will be located in 4,000 sq.ft. of commercial space for a children's education activities and care center.



WE WISH TO THANK:

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