The history of housing trust funds in the United States is peppered with stories that illuminate both the challenges and benefits of developing new public sources of funding for affordable housing. Take California, for example. In 1985, California was one of the first states to create legislation supporting a housing trust fund, which in theory would have funneled revenue from offshore oil drilling to the production of affordable housing in the state. Advocates cheered the legislation, anticipating funds of around $20 million each year to be dedicated to affordable housing programs. However, despite its promise, the fund ended up allocating a mere $2 million a year for affordable housing, most of which was directed in support of ongoing programs like providing emergency shelter. So while California technically had a housing trust fund, it really was in name only.

Then, in 2002, California voters passed Proposition 46, the Housing and Emergency Shelter Trust Fund Act, approving a $2.1 billion general obligation bond for affordable housing. The revenues from Proposition 46—approximately $400 million a year—have been directed to downpayment assistance programs, emergency shelter beds for the homeless, and farmworker housing. In the first two years of the program, $846 million has been spent, helping to build 9,212 permanently affordable rental units and 6,927 new and rehabilitated shelter beds, and assisting 13,737 first-time homebuyers and 3,379 farmworker households in securing affordable housing.\(^1\) In addition to these direct impacts, Proposition 46 has helped to leverage private investment, raise public support for affordable housing, and generate interest among municipalities in establishing local housing trust funds.

But there’s a catch—Proposition 46 is a one-time deal, and the revenues will be exhausted in 2007. In this regard, the proposition still falls short of what California needs: a housing trust fund with an ongoing, stable revenue source. Mary Brooks, of the Center for Community Change and a leading expert on housing trust funds, says that it’s the existence of a dedicated revenue source that makes housing trust funds unique and effective. One-time infusions of money that are reliant on government appropriations are subject to the whim of politicians and budget cycles. An ideal housing trust fund, on the other hand, provides long-term, steady financing for affordable housing. “If we have any hope of addressing the housing affordability crisis,” Brooks notes, “it’ll be through a combination of national, state, and local housing trust funds, each with dedicated revenue sources that provide affordable capital for housing year after year.”

An ambitious goal, but one that appears to be gaining public support as concerns about housing affordability move up the income ladder. Since their emergence in the mid-1970s, the number of Housing Trust Funds in the United States has risen dramatically (Figure 3.1).\(^2\) Today, there are more than 350 housing trust funds in cities, counties and states across the country, and this number is constantly growing. With the exception of Alaska, all of the states within the Federal Reserve’s 12th District have some version of a housing trust fund on the books, and many states in the district are also home to city, county, and regional housing trust funds.
Even though they share a common name, housing trust funds differ greatly in the details of their revenue source, their administration, and their program design. Nearly forty different sources of revenue have been identified as part of existing housing trust funds, including real estate taxes or fees, developer fees, property taxes, tax increment funds, or interest from government-held and/or market-based accounts. Funds also vary widely in the amount of annual revenue they collect, ranging from a high of around $300 million to less than $100,000 annually. In fact, perhaps the only thing they all have in common is that they direct non-federal public funding to affordable housing programs. ³

The diversity of housing trust funds is also their strength. Unlike many federal housing programs, housing trust funds can be designed to draw on local resources, and can be tailored to local needs. To illustrate some of the ways in which housing trust funds work, profiled here are four of the state level trust funds in the 12th District.

Arizona
Arizona passed its statewide housing trust fund in 1988. Rather than imposing new taxes or fees to support the program—an unpopular proposition in almost any locale—Arizona’s trust fund receives 55 percent of the revenues from unclaimed property. Unclaimed property comes from “inactive bank accounts, deposits, lay away fees, and unclaimed refunds” in lending institutions, insurance companies, and commercial retail operations. Although most amounts are very small, the value of this revenue stream has risen to about $20 million a year. Since its inception, over $130 million has been made available to the fund for affordable housing related purposes.⁴ Approximately one-third of the monies in the fund must be spent in rural areas. Arizona’s Department of Housing coordinates the application procedure for the trust fund monies with their federal HOME allocations, allowing nonprofits, developers, and local governments to submit a single application to access multiple funding sources. Arizona is also one of the few states in the country that dedicates trust funds to tribal projects, in recognition of the affordable housing needs of the large number of Native Americans in the state. In both 2004 and 2005, the housing trust fund allocated $2.5 million for affordable housing programs on tribal lands.⁵

Hawaii
Hawaii has had its rental housing trust fund in place since 1992, which is funded by a real estate conveyance, or transfer, tax.⁶ In 2004, the conveyance tax netted about $15 million, of which 25 percent went to the rental housing trust fund.⁷ In June of 2005, Governor Linda Lingle approved a measure to increase the conveyance tax, which historically had been the lowest in the nation.⁸ Reflecting the impact of tourism on Hawaii’s property values, the increase in the tax is targeted at luxury and vacation properties. The transfer tax for home sales under $600,000 will remain the same at 10 cents per $100, but the tax will increase to 25 cents per $100 for properties valued between $600,000 and $1 million, and to 30 cents for those valued at more than $1 million. Non-Hawaiian residents will pay 5 cents more per $100 for each of the property value thresholds, for example, 35 cents per $100 for properties valued at over $1 million. The law also changes the allocation of the conveyance tax, with 30 percent now going towards the rental housing trust fund. The new law will provide the rental housing trust fund, which provides loans and grants to builders of affordable rentals, about $10.8 million annually, up from the current $3 million to $5 million.⁹

Unlike many federal housing programs, housing trust funds can be designed to draw on local resources, and can be tailored to local needs.

Utah
Utah’s fund, The Olene Walker Housing Loan Fund, does not have a dedicated revenue stream, and derives its funding from grants that the U.S. Department of Housing and Urban Development allocates to Utah State, as well as from legislatively appropriated funds. In 2005, approximately $7 million was directed to the fund, of which $2.4 million was appropriated from the state legislature. The Olene Walker Housing Loan Fund is set up as a revolving loan fund, and has total assets of around $60 million. The fund targets a wide range of initiatives from developing multi-family rental properties to helping elderly rural homeowners with rehabilitation or improvement loans. For example, last year the fund supported the rehabilitation of the Villa South apartments in Ogden, which consisted of 120 affordable units serving households earning below 40 percent of area median income (AMI). The project received a loan in the amount of $960,000 to help acquire and rehabilitate the existing property, including replacing all of the heating and electrical systems.¹⁰ On the other end of the spectrum, in the small rural town of Ivins, the fund provided a low-income household a loan of $7,975 to replace the windows and siding on their mobile home, charging only 2 percent interest for 10 years.

Washington
Washington established the Washington Trust Account in 1988. Initially, the legislature allocated $2 million from real estate escrow accounts held by the state, and ascribed penalties from the failure to pay real estate transfer taxes to the fund. In the early 1990s, the legislature boosted the amount in the Trust Account through an appropriation from the capital budget, funded through a capital bond allocation.
This year, the state legislature committed $100 million from this source, the largest contribution to date. In 2002, efforts by housing advocates led to the passage of legislation authorizing counties to increase document recording fees by $10. The surcharge has already generated $19 million for local governments, which have control over how to direct the funds, and about $12 million for the state.

Idaho, Nevada, and Oregon also all have housing trust funds that are adapted to emphasize local priorities. In Oregon, for example, projects funded through its housing trust fund must include a resident services component, for example, providing financial literacy classes, daycare, or referrals to a job training program. In Nevada, trust fund dollars are targeted to those earning below 60 percent of AMI, in an effort to help low-wage workers priced out of Nevada’s burgeoning real estate market.

Although not all states have established the ideal trust fund with a dedicated revenue stream, more and more state and municipal governments have recognized the need for identifying local funding for affordable housing. According to Washington State Representative Hans Dunshee, the public investment is well worth it. “In Washington, the housing trust fund is a critical part of our strategy to provide affordable housing, and the funds are often what puts a project in the black and gets it built. The challenge now is to do more. Out of a total $2.4 billion budget, $100 million is just a drop in the bucket. What if funding went to $200 or $300 million? With our skyrocketing house prices, we need to keep thinking big and innovating to ensure that we’re creating a just society in which everyone has a safe and affordable place to live.”

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Endnotes

Inclusionary housing (Box 2.1)
2 Inclusionary Housing in California: 30 Years of Innovation. Non-Profit Housing Association of Northern California and California Coalition for Rural Housing, June 2003.
5 Homebuilders of Northern California vs. City of Napa, 90Cal.App 4th 188.

State Housing Trust Funds
2 Data on the number of housing trust funds are collected by the Center for Community Change. Because the field is changing so rapidly, it is hard to get an exact count of the number of housing trust funds in the United States.
3 In their original intent, housing trust funds were designed to be sources of public funding for affordable housing, and do not rely on corporate contributions, foundation grants, or bank commitments to be sustainable. Still, as employers increasingly recognize that housing affordability has a serious impact on their workers, promising models for cross-sector collaboration in the establishment of affordable housing trust funds are emerging.
7 The rest of the revenues generated from the transfer tax are directed to the state general fund (50 percent) and to the Natural Area Reserves System (25 percent).
10 Information on the Olene Walker Housing Trust Fund can be found online at http://community.utah.gov/housing_and_community_development/OWHLF/index.html.

Not just your granny’s flat (Box 3.1)

Figures
Figures 1.1 & 1.2: JCHS tabulations of the 2000 Census Supplemental Survey and the 2003 American Community Survey. Reprinted from The State of the Nation’s Housing 2005 with permission from the Joint Center for Housing Studies of Harvard University. All rights reserved.
Figure 1.3: Office of Federal Housing Enterprise Oversight (OFHEO). “U.S. House Prices Continue to Rise Rapidly,” June 1, 2005. Data are reported for period ending March 31st, 2005.
Figure 1.4: Federal Deposit Insurance Corporation, 2005 State Profiles, accessible at http://www.fdic.gov/bank/analytical/stateprofile/index.html. Data are for December 2004 and reflect the average annual growth for the preceding year. Washington data are for September 2004.
Figure 1.5: HUD’s Fair Market Rents for 2004, based on methodology developed by the National Low Income Housing Coalition. Adapted from The State of the Nation’s Housing 2005 with permission from the Joint Center for Housing Studies of Harvard University. All rights reserved.
Figure 1.6: U.S. Department of Housing and Urban Development, Low Income Housing Tax Credit Database.
Figure 3.1: Center for Community Change (2005) www.communitychange.org