<u>Affordable Housing Isn't Cheap:</u> The Status of and Need for Dedicated Local Revenue for Affordable Housing Production and Preservation in the Washington, D.C., Region

Gates of Ballston, 4207 Pershing Drive, Arlington, Va.

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A *Washington Regional Network For Livable Communities* Report

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The WRN Mission

WRN advocates transportation investments, land use policies, and neighborhood designs that enhance existing communities and the environment of the Washington, D.C. region. WRN's goal is to create and sustain a network of diverse, walkable communities linked by quality transit, graced by parks, and surrounded by farms and forests, with the District of Columbia as the hub of the region. WRN is a non-profit, charitable organization.

Cover Photo: Local revenue supported preservation of 348 affordable units in a transit accessible location.

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Regional Affordable Housing Need

Housing prices are increasingly out of reach for low- and moderate-income families across the Washington, D.C. region. Housing supply has not kept up with job growth, wages have not kept up with the rising price of housing, a majority of low-income families pay more than 30 percent of their income on housing costs and a majority of the units that low-income families can afford are occupied by higher income households that could afford more expensive units.

Dedicated Revenue Source

Housing trust funds, with a dedicated revenue source, are one critical tool in a larger affordable housing strategy. Housing trust funds are distinct accounts that receive dedicated sources of public funds to support affordable housing. They are created to provide quality affordable housing to those most in need. Housing trust funds provide a continuous stream of funding that is not dependent on the annual budget process. They have been an important part of some of the most effective affordable housing efforts, nationally and locally.

The dedication of local revenue towards affordable housing is a significant regional trend that represents a strong first step for many jurisdictions in addressing a growing housing affordability problem.

Comparison

Montgomery County, Md., is the only jurisdiction in the region to have a dedicated local revenue source committed to affordable housing.

The District of Columbia has the revenue source and amount identified and promised by law, but the specifics of the funds flowing yearly into the Housing Production Trust Fund remain dependent on the vagaries of the budget process.

Arlington County, Va., has a semi-dedicated source of local revenue going into its Housing Investment Fund. Its local revenue commitment to affordable housing has remained consistently high over the 15-year existence of its Housing Investment Fund, but it is not dedicated.

Fairfax County, Va., and the City of Alexandria, Va., have affordable housing trust funds that have relatively small, non-dedicated sources of revenue. Therefore, the amount of public funds invested into affordable housing is variable and dependent on yearly budget allocation decisions and other contributions.

Prince George’s County, Md., and Loudoun County, Va., do not have affordable housing trust funds.

Recommendations
All local jurisdictions should match the District of Columbia and Montgomery County, Md., in their local revenue commitments to affordable housing per capita.

Based on the leading jurisdictions per capita commitments, we recommend the following for the remaining jurisdictions:

Fairfax County should dedicate approximately $30 million per year to its Housing Trust Fund.

The City of Alexandria should dedicate approximately $5.5 million per year to its Housing Trust Fund.

Prince George's County should create a Housing Trust Fund and dedicate approximately $15-35 million per year.

Loudoun County should create a Housing Trust Fund and dedicate approximately $8.6 million per year.

Arlington County should increase its local funding commitment to the Affordable Housing Investment Fund to $12 million per year, and dedicate the source(s).

The District of Columbia should continue to provide the Housing Production Trust Fund with its promised by law yearly revenue of 15 percent of the real estate transfer tax and deed recordation fee, which amounts to approximately $42 million per year.

Montgomery County needs to continue its commitment to the Housing Initiative Fund at approximately $18.1 million per year.

Introduction

Affordable Housing Isn't Cheap is a report on the status of dedicated local revenue sources for affordable housing production and preservation in the Washington, D.C. region. It provides guidance to area jurisdictions that have yet to implement a dedicated local revenue source. This report describes dedicated revenue sources that already exist and forecasts what type and size of dedicated revenue sources make sense for each jurisdiction.

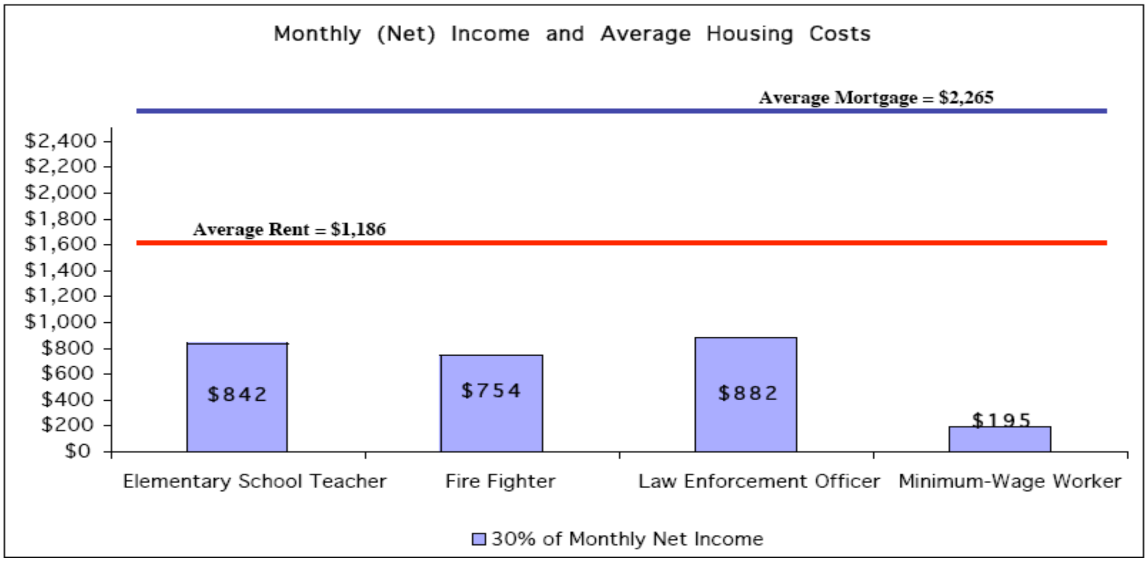
Nearly all new affordable housing for lower income households across the country is created through partnerships between government funding agencies and private for- and non-profit developers. The public funding role is crucial because constructing housing is almost always not financially feasible at the rents or mortgage payments that lower income households can afford to pay, especially in areas with high housing costs like the Washington, D.C., region. Legal restrictions that accompany this public investment ensure that this housing will remain affordable to lower income families for varying amounts of time.

Regional Affordable Housing Need

An increasing number of families in our region are finding that housing is too costly given their earnings. Two factors have driven this current affordable housing crisis. First, the housing supply has not kept up with job growth, especially in close-in areas near most jobs. Second, wages have not kept up with the rising cost of housing, especially among lower paid workers. Therefore, minimum- and moderate-wage workers do not earn enough to afford the average two-bedroom unit rent or mortgage in the Washington, D.C., region.

Figure I highlights how two income households, with two moderate-wage workers, are able to afford the average rent but not the average mortgage. However, when households have only one income or one of the two is a minimum-wage worker, the average regional rent or mortgage is out of reach.

Figure I: Regional Affordable Housing Need, 2003

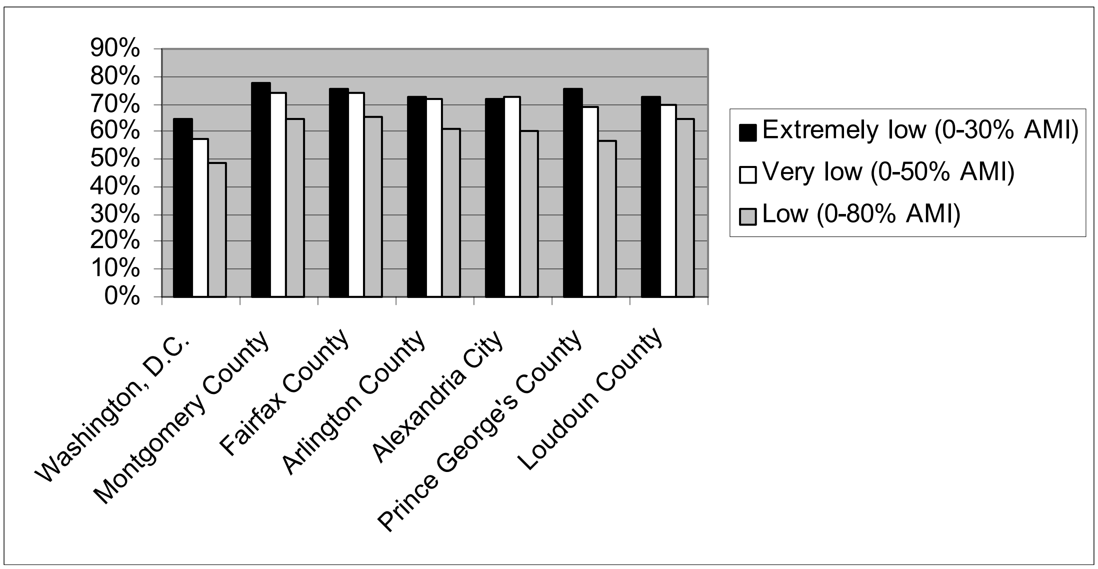


(Source: Washington Area Housing Partnership)

As a result, many households in the region have an excessive cost burden – that is, they are paying more than 30 percent of their income on housing costs. Figure II highlights the large number of households that have an excessive cost burden. For example, in Montgomery County, nearly 80 percent of households who earn less than 30 percent of the area median income spend more than 30 percent of their income on housing costs.

Area median income (AMI) is the median income for a family of four measured across metropolitan and non-metropolitan statistical areas. This figure is calculated from census data and adjusted annually. Each year, the Department of Housing and Urban Development (HUD) establishes income categories based on AMI to determine the eligibility for various federal housing subsidies and economic development programs.

Figure II: Share of Households with Excess Cost Burden, 2000



Source: U.S. Census Bureau, Comprehensive Housing Affordability Strategy Special Tabulations, 2000 (Appendix C)

Housing options for low- and very low-income renters and homeowners are constrained not so much by an absolute shortage of affordable units as by competition from higher-income households, which typically do not spend as much as 30 percent of their income for housing.[1] Higher income households (above 30 percent AMI for Table I) that could afford more expensive units occupy a majority of the units that low-income families can afford. As Table I indicates, the problem of affordability burdens being passed onto the lowest income families and individuals exists all over the region, particularly for households at less than 30 percent of the AMI. For example, in Arlington County, half of the units that are available to extremely low income individuals and families (0-30 percent AMI) are occupied by households who earn more than 30 percent AMI.

Table I: Share of Affordable Units Occupied by Households in Higher Income Category, 2000

	Extremely Low Income Units
Washington, D.C.	35%
Montgomery County	49%
Fairfax County	56%
Arlington County	50%
Alexandria City	37%
Prince George's County	53%
Loudoun County	68%

Source: U.S. Census Bureau, Comprehensive Housing Affordability Strategy Special Tabulations, 2000 (Appendix D)

Current Situation

With households facing increasing housing cost burdens over the last few years in our region, local jurisdictions have begun to look more closely at their policies toward affordable housing. Arlington County attempted to implement a new tool to increase the supply and diversify the location of affordable housing, but its 10 percent affordable housing site plan guidelines were struck down in court by a building industry lawsuit. (See Appendix G for more information.) Since other affordable housing tools are often not available, this example highlights the importance of a dedicated revenue source.

Dedicating a local revenue source to affordable housing has been a recent policy decision for jurisdictions in the Washington, D.C., region. In 2002, the District of Columbia enacted a law promising 15 percent of the city's real estate transfer tax and deed recordation fee for its Housing Production Trust Fund. (The District of Columbia is technically unable to dedicate revenue). Montgomery County dedicated 2.5 percent of its property taxes in 2003. Arlington County in 2003 allocated a relatively significant amount of funding to its Affordable Housing Investment Fund, however it is not dedicated. Currently, Fairfax County's Board of Supervisors is considering dedicating one cent of the real estate tax rate to affordable housing. The dedication of local revenue towards affordable housing is a significant regional trend that represents a strong first step for many jurisdictions in addressing a growing housing affordability problem.

Costs of Not Providing Affordable Housing

Unless the region's jurisdictions are able to increase the affordable housing supply, they will have to bear the burden of rising public costs associated with inadequate affordable housing. Worker shortages, caused by jurisdictions not providing affordable housing, reduce productivity and discourage businesses from locating in that jurisdiction. Also, maintenance for a transportation infrastructure that is overburdened by traffic congestion due to workers traveling great distances increases public costs.

There are also substantial social costs associated with not providing an adequate amount of affordable housing. A balanced, inclusive community is one that enables the workers across the income spectrum who serve the community the opportunity to reside there.

This report will define dedicated local funding, discuss its characteristics, describe the current revenue sources that already exist in the region, and recommend how much revenue and from what source each jurisdiction should dedicate to affordable housing.

Dedicated Revenue Source

Housing trust funds are distinct accounts that receive dedicated sources of public funds to support affordable housing. They are the most effective tools for creating decent affordable housing for those most in need.

Housing trust funds provide a continuous stream of funding that is not dependent on the annual budget process. The reliability of the source of the funding is critical to the success of the mechanism. It allows housing producers to rely on a continuous funding source for future planning.

Key Characteristics

Most housing trust funds are administered by a public or quasi-public agency because housing trust funds use public funds. Most housing trust funds serve populations earning no more than 80 percent of the AMI, but some serve lower incomes or set aside a portion of the funds to serve only lower income households. Table II shows the 2004 AMI for the Washington Metropolitan Area. Many housing trust funds require that new or rehabilitated units supported through the trust fund remain affordable to the targeted population for a defined amount of time or in perpetuity. The most common revenue source for a jurisdiction's housing trust fund is the real estate sale document-recording fee. Other sources used by jurisdictions include transfer taxes, real property taxes, sales taxes, and development fees.

See Appendix E for a more detailed definition of dedicated revenue sources and their characteristics.

Table II: 2004 Area Median Income Thresholds for Four-Person Households in the Washington Metropolitan Area

	Percent of AMI	Threshold
Median Income	100	$ 85,400
Low-Income	80	$ 68,320
Very Low-Income	50	$ 42,700
Extremely Low-Income	30	$ 25,620

Source: HUD

Around the Region

Montgomery County is the only jurisdiction in the region to have a dedicated local revenue source committed to affordable housing.

The District of Columbia has the revenue source and a substantial amount identified by law, but the specifics of the funds flowing yearly into the Housing Production Trust Fund remain dependent on the budget process.

Arlington County has a semi-dedicated source of local revenue going into its Housing Investment Fund.

Fairfax County and the City of Alexandria have affordable housing trust funds that have relatively small, non-dedicated sources of revenue. Therefore, the amount of public funds invested into affordable housing is variable and dependent on yearly budget decisions and contributions from other sources.

Prince George's County and Loudoun County do not have affordable housing trust funds.

A recently created regional housing trust fund exists that is meant to complement the investments made by local jurisdictions and to encourage investments from the private sector. The Washington Area Housing Trust Fund does not receive funds from a dedicated source. The Washington Area Housing Partnership manages the Washington Area Housing Trust Fund.

See Appendix F for a description of each jurisdiction's revenue source put toward affordable housing.

Trust Fund Dollars at Work

In 2002, the District of Columbia's Housing Production Trust Fund investment of $20 million leveraged $145 million in other funds and resulted in the production or preservation of more than 2,000 housing units, many of them for Washington, D.C.'s neediest families.[2]

As of March 2003, Montgomery County began to annually earmark 2.5 percent of its property tax revenue or $16 million for the Housing Initiative Fund (HIF). Already the

Housing Initiative Fund has preserved the county's entire stock of expiring Section 236 (federal government-supported affordable) housing. Four properties totaling 460 units are now owned and managed by non-profits, the initial and permanent financing structure retains the affordability. The Housing Initiative Fund also provided loans to the local housing authority to purchase four 100 percent project-based Section 8 buildings, preserving an additional 407 units.

In seven privately held 20 percent project-based Section 8 properties, 309 units were preserved. The Housing Initiative Fund provided bridge loans when HUD rent payments were delayed, reimbursed property owners for the cost of market studies and other expenses HUD requires in order to document rent increases, and covered the cost of extraordinary damage to a unit.[3]

Since 1998, Fairfax County has leveraged its $18 million Trust Fund investment to produce more than 1,000 units of affordable housing.

Trust fund dollars can be leveraged in numerous ways, from supporting first-time homebuyer education to buying units for guaranteed long-term affordability, each with vastly different costs. Therefore, the amount of money each jurisdiction is spending per affordable unit is not an accurate indicator of the strength or success of their trust fund.

**The Challenge of Preserving and Strengthening an Existing Community:
From the Gates of Arlington to the Gates of Ballston**

Early in 2002, Arlington County, Va. staff informed Chris Zimmerman of the County Board that the Gates of Arlington, a privately owned complex of 465 apartments in the Buckingham neighborhood and home to many immigrants, was being sold. Hall Financial Services, the owner, had signed a letter of intent to sell the property but no sales contract had been signed. In response, Zimmerman formed an *ad hoc* Gates working group, including county staff, to discuss ways to ensure that the property remained affordable and that this diverse community of residents could continue to live in the neighborhood. In conjunction with the Gates of Arlington Tenant Association (BU-GATA) representatives, they developed a plan that would ensure the preservation of the affordable units, in addition to meeting other community needs.

The developer who had earlier expressed interest in purchasing the complex decided not to proceed with the deal. A local housing activist who was a member of the Gates working group was able to personally reach the owner who lived in Texas and persuade the owner to work with Arlington County in its effort to preserve the affordability of the Gates. The Gates working group selected a local non-profit developer, AHC, Inc. as the entity best positioned to carry out the community's goal of preserving affordable housing and the existing community.

BU-GATA worked to ensure that AHC's renovation package was responsive to community needs. When AHC first presented its affordable housing package to county staff, the proposed rents for the newly renovated units would have only been affordable to those households earning 60 percent of Area Median Income (AMI), or $52,200 for a family of four. But income data for the Gates residents indicated that over 100 households earned incomes below that level. BU-GATA advocated for a dedicated Tenant Assistance Program that would guarantee a rental subsidy for existing tenants with incomes below 60 percent AMI.

In 2004 the county approved a financial package. The county's long-term financing package consisted of an $8.5 million Affordable Housing Investment Fund loan, a $480,000 grant to fund a tenant assistance program and a credit enhancement for approximately $23 million in tax-exempt revenue bonds. The cost of renovation and construction totaled nearly $100 million. The balance of funds needed to complete the work came from federal and state historic tax credits, low-income housing tax credits, tax-exempt bonds, and other sources.

Of the 465 units, 348 will be affordable at 60 percent of AMI. Under the proposed plan, a minimum of 10 percent of the units will be affordable at 50 percent AMI, or $43,500 for a family of four. The plan also allows 9 units for Department of Human Services (DHS) clients with special needs. Ten of the units will be accessible to persons with physical disabilities.

Campaigns for a Dedicated Revenue Source

The creation of strong housing trust funds in Montgomery County and the District of Columbia were the result of well-organized grassroots campaigns.

Montgomery County

In 1999, Action in Montgomery (AIM) was formed, and the active leadership of its Housing Task Force by the chair and president of the largest county housing non-profit, Montgomery Housing Partnership (MHP), led to the proposal that the county dedicate $15 million annually to expand its existing trust fund with a dedicated source of revenue. AIM is the first suburban social and political action group sponsored by the Industrial Areas Foundation (IAF) and by 2000 it counted 20 county religious congregations and synagogues in its membership, representing over 20,000 county residents. Advocates chose $15 million because they believed it was large enough to provide substantial support to affordable housing without being so high that the County Council would reject the proposal. The enthusiastic acceptance of this proposal by County Executive Douglas Duncan at the June 2000 AIM Founding Convention put the concept well on the way to general public and County Council approval. In the subsequent months advocates suggested and the County Executive agreed that the annual funding would increase by the larger of 2.5 percent of real estate tax revenues or the growth of the Consumer Price Index (CPI). However, it would take two more years of AIM pressuring the new County Council candidates in the 2002 elections as well as sitting County Council members before the annual funding became truly dedicated in March 2003.

Washington, D.C.

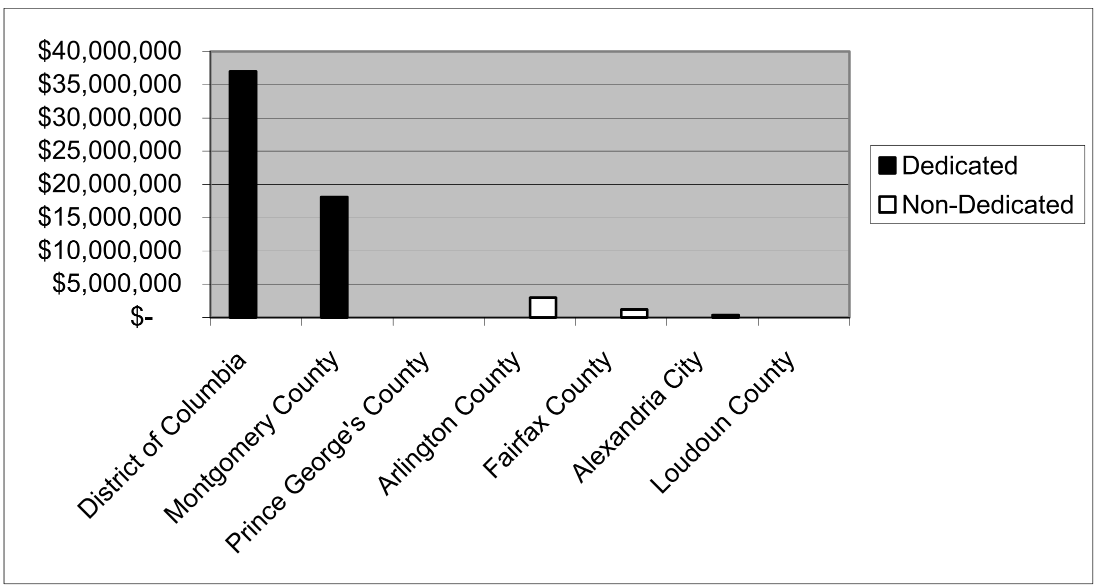
In April 2001, Mayor Anthony Williams proposed legislation to revive the Housing Production Trust Fund. It had been created in 1988, but it was never funded after the first few years. The mayor proposed a regular stream of funding: 15 percent of the annual revenues from the property transfer tax and 15 percent of the recordation fees. Community activists already working together on a variety of low-income housing issues (Center for Community Change, Coalition for Housing Justice, Coalition for Non-Profit Housing and Economic Development, D.C. Fiscal Policy Institute, League of Women Voters, MANNA CDC, Washington Inncercity Self Help, Washington Legal Clinic for the Homeless, and Washington Regional Network for Livable Communities) succeeded in targeting the Trust Fund to preserve and create housing for moderate and low-income families, and the bill became law in early 2002. Out of this effort grew the Affordable Housing Alliance, an informal coalition of more than 30 organizations whose constituents have a stake in affordable housing.

Mayor Williams proposed reducing funding from the Housing Production Trust Fund for the first two years of implementation. This resulted in less than one quarter of the funding provided under the law in 2002 -- only $5 million of the original $22 million was proposed to the Housing Production Trust Fund from the designated source. The mayor relied on a one-time contribution of $25 million in 2003 to make up the difference in the cut. In the second year, full funding of $21.5 million was restored by a D.C. Council appropriation, after the mayor only proposed $12 million. The 15 percent figure, however, remains in the law, and housing advocates continue to push for full funding each year.

Comparison

Figure III shows a regional comparison of the six inner core jurisdictions and how much each commits on a yearly basis to affordable housing with local funds. It is important to again note that Montgomery County is the only jurisdiction in the region that has a <u>dedicated</u> source of local revenue committed to affordable housing. However, for the purposes of regional comparison and due to its substantial financial investment in the Housing Production Trust Fund, the District of Columbia will be included in the dedicated source category. Also, for the non-dedicated revenue sources (Arlington, Alexandria, and Fairfax), 2004 commitments were calculated by dividing the total amount invested in their housing trust funds by the number of years it has been in existence.

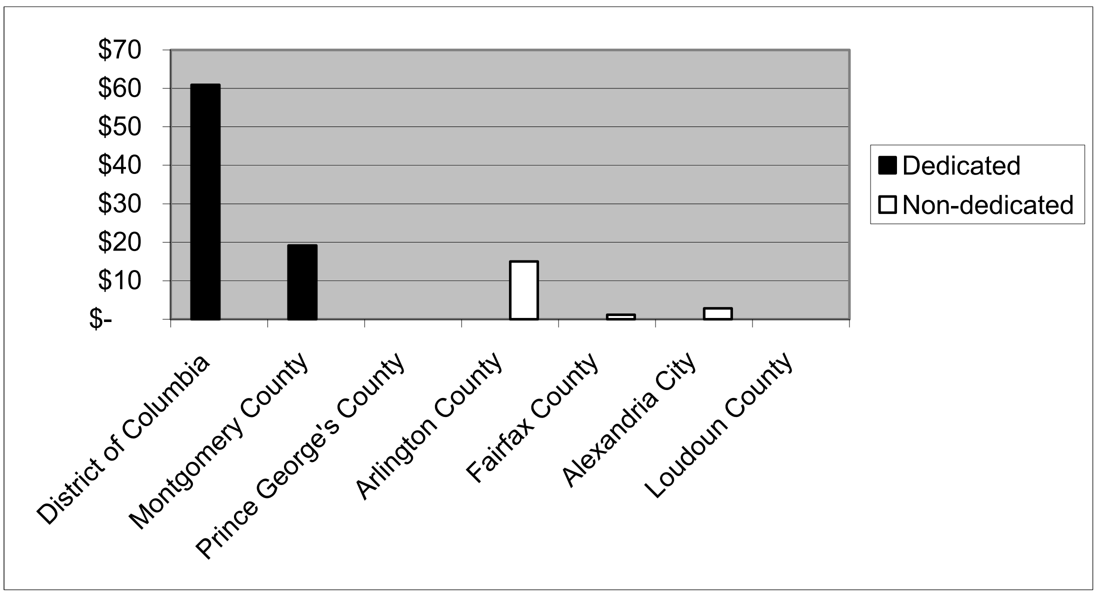
<u>Figure III: Local Revenue in 2004 for Affordable Housing</u>



(Appendix A)

Figure IV compares the amount of revenue committed to affordable housing to population size by jurisdiction. The dollar amounts reflect the amount of revenue available in each jurisdiction's trust fund divided by population (the time period varies according to available data). This chart illustrates a number of important points. One, relative to its population size and the financial commitments made by Montgomery County and D.C., Arlington County has made a reasonable effort over the 15-year existence of its Housing Investment Fund to preserve and create affordable housing. However, Arlington County still needs to dedicate its source of funding. Second, Fairfax County, Loudoun County, and Prince George's County, relative to their population sizes, have made negligible financial commitments to affordable housing. Finally, the City of Alexandria has done slightly better on a per capita basis than these three counties by providing just under $400,000 per year over 12 years from a non-dedicated source.

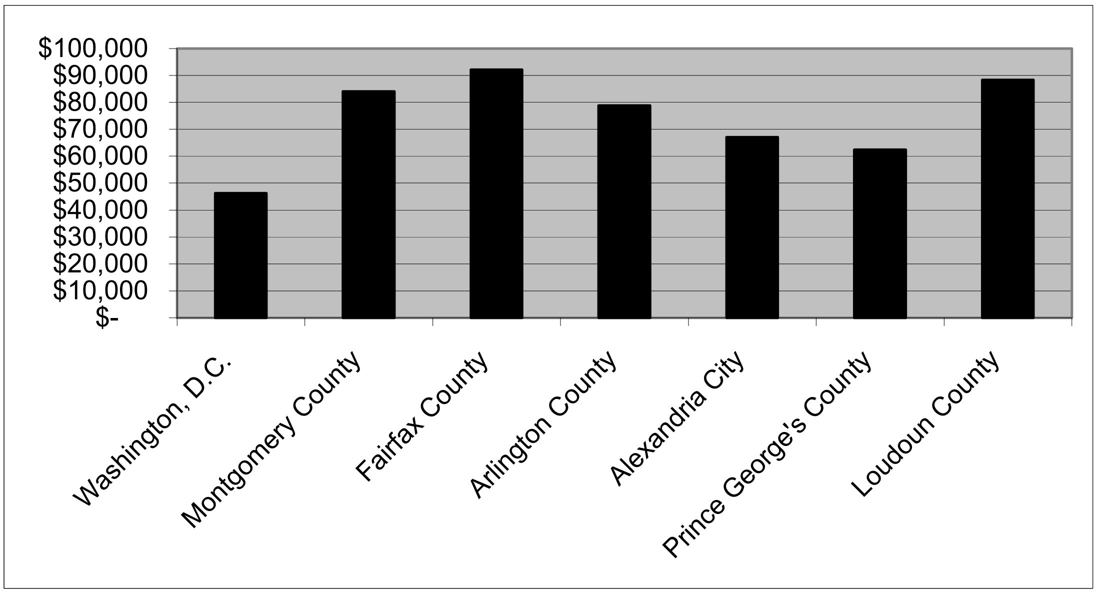
Figure IV: Local Revenue in 2004 for Affordable Housing per Capita



(Appendix B)

When financial commitment to affordable housing is compared to median family income, generally, the wealthier jurisdictions where the greatest need exists have made proportionately smaller financial commitments to affordable housing. For example, Fairfax County has a median family income of over $92,000 while it has provided just over $1 million per year over 15 years from a non-dedicated source. Also, Loudoun County has a median income of over $88,000 while it has yet to create a housing trust fund. In contrast, Montgomery County has a median family income of over $84,000 while it has *dedicated* over $16 million per year over the first three years of its expanded Housing Initiative Fund.

Figure V: 2000 Median Family Income



(Source: Census 2000)

The jurisdictions of Alexandria, Arlington, Fairfax, and Loudoun, with high median family incomes and rapidly increasing housing cost burdens for less affluent households, have not dedicated local revenue towards addressing this problem. These jurisdictions can begin to mitigate the hardship on families earning a modest income by making the concrete and substantive decision to dedicate local funds to an affordable housing trust fund.

Recommendations

If Fairfax, Alexandria, Arlington, and Loudoun choose to dedicate 2 cents per $100 of assessed value of their real estate tax rate revenue, they would be on par with D.C. and Montgomery County in terms of *local revenue dedicated for affordable housing per year per capita*. If they committed 1 cent of their real estate property tax revenue, they would be below the regional standard. Prince George's County, due to limits on its property taxes, would need to find greater revenue streams from other sources.

The real estate transfer and deed recordation taxes, as used in D.C., are another good source for housing trust funds because revenues grow as the number of housing transactions in a jurisdiction grows. In general, as affordability decreases due to heightened activity (real estate transfers) in the housing market, real estate transfer and deed recordation tax revenue increases.

In Virginia, the state increased the recordation tax in FY05, thereby enabling local jurisdictions to receive a new source of revenue. Therefore, the total amount of the recordation tax revenue from the higher rate for both FY05 and FY06 can be dedicated to local housing trust funds.

Fairfax, Alexandria, Arlington, and Loudoun should either follow the recommendations below based on 2 cents of the property tax rate or generate the same amount of revenue by using a combination of the property tax and recordation tax revenues.

Fairfax County
Due to the county's great affordable housing need at low and moderate income levels, sizable job supply at all income levels, rising property values, and high median family income, dedicating 2 cents of the real estate tax rate to the Housing Trust Fund, generating approximately $30 million per year, is a reasonable and necessary action.

COG's Round 6.3 Cooperative Forecasts report that Fairfax County will create over 12,000 new jobs each year. Based on the U.S. Bureau of Labor Statistics assumption that 20 percent of all new jobs will be low wage, approximately 2,400 jobs per year in Fairfax County will generate the need for affordable housing. George Mason University Economist Stephen Fuller found that for every 1.6 jobs, 1 new housing unit is required. Therefore, there is a need for as many as 1,500 new affordable homes per year in Fairfax County.

If the $30 million is used for preserving and producing affordable homes, a $30,000 per unit subsidy is commonly required. Therefore, the $30 million per year investment to the Housing Trust Fund would preserve or produce over 1,000 affordable homes per year, a significant step towards the estimated need of 1,500 per year in Fairfax County.

City of Alexandria
Due to the city's great affordable housing need at low and moderate income levels, sizable job supply at all income levels, rising property values, and high median family

income, dedicating 2 cents of their real estate tax rate to its Housing Trust Fund, generating approximately $5.5 million per year, is a reasonable and necessary action.

Based on analysis of COG's Cooperative Forecasts, there is a need for as many as 250 new affordable homes per year in the City of Alexandria. Therefore, the $5.5 million per year investment to the Housing Trust Fund would preserve or produce over 200 affordable homes per year, a significant step towards the estimated need of 250 per year.

Prince George's County
Investment in mixed-income housing and the rehabilitation of an aging housing stock would help Prince George's County provide decent housing for families at a variety of income levels. Therefore, creating a Housing Trust Fund and dedicating $15-35 million per year is essential. New investment and redevelopment should be high-value, transit-oriented, and mixed-income coupled with assistance and protection for low-income residents so that improved housing opportunities are created without displacement.

Loudoun County
Due to the county's share of households with excess cost burdens, high median family income, rising property values, and the need to focus new housing in appropriate growth areas, dedicating 2 cents of its real estate tax rate to affordable housing, generating $8.6 million per year, is a reasonable and necessary action. For households to be able to maintain fewer automobiles and therefore save money, the county should focus on a diversity of housing types and sizes as part of compact mixed-income communities near current jobs and services, and future and existing transit.

Arlington County
Arlington County needs to increase its local revenue commitment to the Affordable Housing Investment Fund to $12 million per year, and dedicate the source(s). Arlington County annual target is to produce or preserve 400 committed affordable homes per year. If the $12 million is used strictly for preserving and acquiring affordable homes so they are not converted into market rate units, a $30,000 per unit subsidy is commonly required. Therefore, the $12 million per year investment to the Housing Investment Fund would, at $30,000 per unit, preserve or produce the approximately 400 committed affordable homes per year.

The District of Columbia
The Housing Production Trust Fund needs to receive its promised-by-law local revenue stream yearly. The underwriting process needs to be streamlined, any future use of the funds need to be guided by principles articulated in the Housing Act of 2002, and an Acquisition Fund to purchase land also needs to be created.

Montgomery County
Montgomery needs to continue its commitment to the Housing Initiative Fund at approximately $18.1 million per year.

Notes

[1] The Urban Institute, p. 43, 2004.
[2] Lazere, February 24, 2003.
[3] Center for Community Change, 2002.

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Appendix A: Approximate Local Revenue in 2004 for Affordable Housing

Jurisdiction	Local Revenue in 2004	Years with a Non-Dedicated Source	Total Contributions (From Jurisdictions without a Dedicated Source)
District of Columbia	$ 37,000,000	N/A	N/A
Montgomery County	$ 18,100,000	N/A	N/A
Prince George's County	$ -	0	$ -
Arlington County*	$ 3,000,000	15	$ 45,000,000
Fairfax County*	$ 1,200,000	15	$ 18,000,000
Alexandria City*	$ 391,667	12	$ 4,700,000
Loudoun County	$ -	0	$ -

* The local revenue in 2004 was calculated by dividing the total amount invested in its housing trust fund by the number of years it has been in existence.

Source: Discussions with jurisdictions' staff and jurisdictions' publications.

Appendix B: Local Revenue in 2004 for Affordable Housing per Capita

Jurisdiction	Dedicated	Non-dedicated	2005 Population
District of Columbia	$ 61		606,998
Montgomery County	$ 19		944,606
Prince George's County		$ -	853,953
Arlington County		$ 15	200,770
Fairfax County*		$ 1	1,043,000
Alexandria City		$ 3	136,531
Loudoun County		$ -	243,528

*Since Fairfax City and Falls Church City have independent local governments, their populations (approximately 35,000) were excluded.

Source of Population figures: *COG 6.4A Cooperative Forecasting*

Appendix C: Share of households with excess cost burden

Jurisdiction	Extremely Low Income Households	Very Low Income Households	Low Income Households
Washington, D.C.	64%	57%	49%
Montgomery County	77%	74%	65%
Fairfax County	75%	74%	65%
Arlington County	73%	72%	61%
Alexandria City	72%	72%	60%
Prince George's County	75%	69%	57%
Loudoun County	73%	70%	64%

ELI - 0-30% of median income
VLI - 0-50% of median income
LI - 0-80% of median income

Area Median Income 2004 $ 85,400

Source: *Housing in the Nation's Capital 2004*

Appendix D: Share of affordable units occupied by household in higher income category

Jurisdiction	Extremely Low Income Units	Very Low Income Units	Low Income Units
Washington, D.C.	35%	39%	41%
Montgomery County	49%	54%	54%
Fairfax County	56%	58%	59%
Arlington County	50%	58%	56%
Alexandria City	37%	54%	55%
Prince George's County	53%	54%	52%
Loudoun County	68%	66%	63%

ELI - 0-30% of median income
VLI - 0-50% of median income
LI - 0-80% of median income

Area Median Income 2004 $ 85,400

Source: *Housing in the Nation's Capital 2004*

Appendix E: Dedicated Revenue Source Definition and Key Characteristics

Housing trust funds can exist on all levels of government, from federal to state to regional to local. With declining financial commitments to affordable housing on the national and state levels, this report looks at the opportunity provided at the local level. Given the wealth of the Washington, D.C., region, and its booming real estate market, substantial amounts of potential revenue exist primarily on the local level. The regional trust fund currently managed by the Washington Housing Partnership is a resource largely for the private sector and the federal government to contribute towards affordable housing solutions in the region. However, the regional trust fund should be seen as complementary and it is in no way a replacement for substantial local government commitments.

Definition

Housing trust funds are distinct accounts that receive dedicated sources of public funds to support affordable housing. They are typically established through legislation. This legislation typically defines an administrative structure for overseeing the trust fund operation, defines regulatory requirements for expenditure of the funds, and enables the dedication of identified sources of public funds.

Housing trust funds are created to provide quality affordable housing to those most in need. Consequently, they are typically targeted to serve lower income households. Within this broad goal, however, housing trust funds have reached far to support a diverse range of housing activities from new construction and rehabilitation to rental assistance and homeless shelters. Because housing trust funds are designed locally without federal intervention, they often represent the most flexible funds jurisdictions manage with regard to addressing their affordable housing needs. This flexibility is indeed the root of their popularity.

Housing trust funds advance the way this country has historically funded affordable housing by providing a continuous stream of funding that is not dependent on the annual budget process. Housing is so basic to the health of every American community that it deserves the kind of funding commitment a housing trust fund can promise.

Key Characteristics

Administration

Most housing trust funds are administered by a public or quasi-public agency because housing trust funds involve public funds. While there are alternatives, such as a community foundation administering the fund, there are very few examples of such models. The public agency or department staffs the trust fund and is responsible for the day-to-day operation of administering the funds.

Housing trust funds usually create an oversight board to govern the operations of the trust fund. Usually these boards are broadly representative of the housing community, including bankers, realtors, developers, non-profit development organization representatives, housing advocates, labor activists, service providers, and low-income residents. These boards can be merely advisory or they may be delegated decision-making authority, including determining which projects receive funding from the trust fund.

Programs

The enabling ordinance or legislation sets broad parameters governing the use of available funds. Regulations are subsequently developed to guide the operation of the trust fund. Most housing trust funds provide funding through loans and grants. Grants are important to ensure that housing can be provided to meet the needs of those with the lowest incomes. Eligible participants typically include non-profit and for-profit developers, government entities, Native American tribes, and housing authorities. Eligible activities usually are quite broadly defined. Often they include new construction, rehabilitation, acquisition, emergency repairs, accessibility, first-time home purchase assistance, and many other activities. Rental assistance is provided by some housing trust funds. There are a few housing trust funds that serve only the homeless population and define activities accordingly.

Among the most important decisions are whom the programs serve and how to specify the regulations to serve the intended beneficiaries. Chief among these questions are the incomes of those to benefit from the housing provided. Most housing trust funds serve populations earning no more than 80 percent of the AMI, but some serve lower incomes or set aside a portion of the funds to serve only lower income households. Another concern is long-term affordability of the units funded. Many housing trust funds require that new or rehabilitated units supported through the trust fund remain affordable to the targeted population for a defined amount of time or in perpetuity. Policy-makers and housing advocates may identify other requirements that they want to ensure are incorporated, including accessibility requirements, mixed income developments, leveraging of funds, and housing-related services.

Revenue Sources

Identifying public revenue sources that can be committed to a local housing trust fund is the essential initial challenge to creating an effective affordable housing trust fund. Different revenue sources are available to cities or counties or states, because each controls different taxes and fees. Opportunities vary from state to state and from jurisdiction to jurisdiction.

The most common revenue source for a county housing trust fund is the real estate sale document-recording fee. Other sources used by counties, however, include transfer taxes, real property taxes, sales taxes, or developer fees.

The most common revenue source for a city housing trust fund is a linkage program – impact fees placed on non-residential development to offset the impact of new commercial space on the demand for employee housing. These fees are part of the zoning ordinance. Along with linkage fees, inclusionary zoning in-lieu fees are also used by many jurisdictions. These fees are charged when a developer finds it too financially difficult to include affordable units on the site of their project. Other cities have committed other developer fees (such as condominium conversion fees or demolition fees), property taxes, real estate excise taxes, and hotel/motel taxes.

Appendix F: Description of Local and Regional Trust Funds

Dedicated

Montgomery County: Housing Initiative Fund

The Montgomery County Council created the Housing Initiative Fund in 1988. It was funded at approximately $3.2 million per year until 2002, when annual contribution were set. Beginning in 2004, the Council agreed to dedicate 2.5 percent of the General Fund property taxes or $15 million expanded by Consumer Price Index – whichever is greater – to the Housing Initiative Fund. This is the only truly dedicated revenue to affordable housing in the region.

Generally, Montgomery County targets its funds to less than 60 percent of the AMI, even though staff members are allowed discretion to fund mixed-income projects. Therefore, affordability restrictions are not placed on all the units in a development that receives Housing Initiative Fund financing. However, in FY 2003, the Housing Initiative Fund awarded $17.8 million. These funds will help pay for the improvement of 3,183 homes for 8,725 county residents. Long-term affordability requirements (tied to the length of the loan, usually at least 30 years) apply to 71 percent of these homes.

Instead of targeting specific income levels, the Housing Initiative Fund helps Montgomery County meet its housing goals, which include renovating distressed properties, preserving housing that could be lost to the affordable housing stock, serving a diversity of county residents, including those with special needs, helping to create mixed income communities, ensuring that housing programs build neighborhoods and not just housing units, and working toward an equitable distribution of affordable housing units.

The Housing Initiative Fund, which is administered by the county's Department of Housing and Community Affairs, makes loans, not grants. However, it can structure its loans with favorable terms (such as 0 percent interest rate) on projects that serve very low-income people or meet other important public purposes.

Promised by Law

Washington, D.C.: Housing Production Trust Fund

D.C.'s Housing Production Trust Fund was created in the 1980s, but did not have a revenue source until 2002.

The District promises by law 15 percent of the real estate transfer and deed recordation taxes collected from D.C. real estate transactions to provide grants and loans to develop, rehabilitate, or preserve affordable rental housing, support homeownership for low-income households, and create stable housing for special needs populations. (In Washington, D.C., all legislation is subject to appropriation in an approved budget and financial plan. Each year, amendments to existing laws are compiled and submitted in the Budget Support Act to reflect proposed appropriations. Therefore, the Housing Production Trust Fund cannot be technically dedicated. Despite having widespread City Council support, continued advocacy is required to ensure full funding.

The Fund, which is administered by the Department of Housing and Community Development, is set up to serve residents with the greatest housing needs: 40 percent of trust funds must be used to provide housing to households that earn up to \$25,440 (30 percent AMI for a family of four). Another 40 percent of the affordable housing trust funds are targeted to households that earn between \$25,400 and \$42,400 (up to 50 percent AMI). The remaining 20 percent is targeted to households earning up to \$67,840 (80 percent AMI). The Median Family Income in the District is \$46,283 or about 55 percent of the AMI for the region.

At least half of all Trust Funds must be used to produce or preserve rental housing.

During fiscal years 2003 and 2004, DHCD provided grants and loans totaling almost \$45.4 million from the Trust Fund to 27 projects that will produce or preserve approximately 2,700 units of affordable housing.

Semi-dedicated

Arlington County: Affordable Housing Investment Fund

The Affordable Housing Investment Fund is Arlington County's main financing program for the development of affordable housing. This Program provides low-interest, secondary loans as an incentive for developers to provide affordable housing.

Eligible activities include acquisition, rehabilitation and the new construction of both rental housing and home-ownership projects. The Affordable Housing Investment Fund is typically used with other affordable housing financing programs such as low-income housing tax credits, tax-exempt or taxable bonds, other federal and state funding sources, and private mortgage financing.

The Affordable Housing Investment Fund was established in 1988 to increase the resources available for the creation and preservation of affordable housing. The program has assisted non-profit and private developers for more than 10 years and has helped to create and preserve over 4,500 affordable housing units that are benefiting low-income households throughout Arlington County.

In recent years, the County Board has annually allocated \$3 million in local funds for affordable housing. The amount available on an annual basis varies as payments on outstanding loans are received and as loans are refinanced.

Arlington County also uses \$1 million of its federal funds for its Affordable Housing Investment Fund.

Non-Dedicated

Fairfax County: Housing Trust Fund

Established by the Board of Supervisors in 1988, the Housing Trust Fund has provided more than $18 million (or $1.2 million per year) for affordable housing through proffers and developer contributions. While the majority of the funds for the Housing Trust Fund are derived from developer contributions, small amounts from the general revenue fund were allocated to the Housing Trust Fund over the years. General revenue funds were used to initially start the Fund, to support a range of specific projects and to fund a program for housing developed by non-profit organizations.

The goals of the Housing Trust Fund are to support the preservation, development, and redevelopment of affordable housing by the Fairfax County Redevelopment and Housing Authority and by private/non-profit or for-profit developers. Housing that has been supported by the Fund includes senior housing, homeownership opportunities for first-time homebuyers, affordable rental housing, supportive housing and group homes, an affordable housing partnership program (AHPP), and a Preservation Loan Fund.

Over the 15 years of the fund's existence, it has helped produce nearly 1,100 units of affordable housing. Most of the housing is targeted at 60 percent AMI and most of the rental housing is affordable in perpetuity because the Fairfax County Redevelopment and Housing Authority and non-profits own it.

Alexandria City: Housing Trust Fund

The Housing Trust Fund has existed since 1986 and has received more than $13 million to date. The monies come from developer contributions (over $11 million); loan repayments, both scheduled and unscheduled; some interest; and a very small amount of fees collected in loan processing.

Housing Trust Funds have been allocated for: development and preservation of affordable housing ($4.6 million for 350 sales units and 170 rental units); assistance to homebuyers ($4.7 million for 2,200 households); assistance to homeowners ($187,000 for 201 units); homeless and transitional housing support ($1.1 million for 172 households); and other activities, which have generally involved support for existing affordable rental properties ($1 million for 120 units).

Slightly over $1.4 million remains unallocated.

Needed

Prince George's County

Prince George's County currently does not have a housing trust fund.

Loudoun County

Loudoun County currently does not have a housing trust fund.

Regional

Washington Area Housing Trust Fund

The Washington Area Housing Trust Fund was launched in 2002 by the Washington Area Housing Partnership as a regional housing trust fund to provide below market rate loans to help create and preserve housing that is affordable in the District of Columbia, Northern Virginia and Suburban Maryland.

The Washington Area Housing Trust Fund makes early short-term loans to non-profit and for-profit developers to support new construction and preservation projects that serve primarily households earning up to $67,840 (80 percent AMI). Affordability requirements are typically dictated by the permanent financing from programs such as the Low Income Housing Tax Credit or bond financing.

The federal government has contributed nearly $1 million to the Fund, which is a non-profit organization whose operating expenses are supported by local governments. The Fund has a three to five year capitalization goal of $15 million that it aims to raise from governments, foundations, and corporations. The National Housing Trust Community Development Fund underwrites the loans.

Since it began lending in 2003, the Washington Area Housing Trust Fund has made six loans totaling $675,000 supporting the construction or preservation of 517 homes and apartments throughout the region. These developments have all been inside the Capital Beltway, near Metro or major bus stations.

The regional trust fund is intended to be a repository for private sector funds, based on the model of the Silicon Valley Manufacturing Group, and therefore does not compete for local government revenue sources. As of February 2005, the Washington Area Housing Trust Fund has received grants from Fannie Mae, Bank of America, and Citigroup foundations. A major capitalization campaign is underway, seeking grants and loans from corporations, state governments, the federal government, and foundations.

Appendix G: Arlington Appeal and Virginia Anti-Affordable Housing Bills Dropped

INTERSECT
Newsletter of the Washington Regional Network for Livable Communities
Volume 9 Number 2, March 31, 2005
By Stephen Wade

Arlington County and Virginia legislators backed down from a stand-off on a dispute over how local government can ask the private sector to contribute to affordable housing. Arlington agreed to drop its appeal of a lower court decision striking down its 10 percent affordable housing guidelines in exchange for the withdrawal of two Virginia General Assembly bills aimed at severely limiting Arlington and Alexandria efforts to obtain contributions to affordable housing as part of private development projects.

On December 10, 2004, an Arlington Circuit Court issued a ruling that the 10 percent affordable housing guidelines were in fact a requirement and not voluntary, thereby not legal under Virginia's Dillon Rule, which restricts local authority. As the county decided to appeal the ruling, state-level legislation quickly moved through the General Assembly to codify the court's decision. The bills, introduced by Del. Gary Reese (R-Fairfax) and state Sen. William Mims (R-Loudoun), not only reinforced the local court decision against Arlington, but would have restricted all voluntary contributions made by developers for affordable housing unless they were compensated with "bonus density."

Since the expanded state legislation would have been damaging to both public sector and private sector affordable housing efforts, Arlington County offered to drop its appeal if the state legislation was also withdrawn. The compromise was accepted, as even many developers viewed the bills as an overreach.

On Feb. 15, the Arlington County Board adopted a resolution rearticulating how its affordable housing programs are related to the county's General Land Use Plan (GLUP). The GLUP shows density maximums that are the ceilings and not the base for development. Many parties involved in the site plan process incorrectly perceived the maximum densities to represent the base level of the development, As the county voluntarily offers more density in site plan projects, more community benefits, including affordable housing, will be expected.

Second, instead of the 10 percent affordable housing guidelines, Arlington County will create a tiered system, or sliding scale, that clarifies how much affordable housing will be expected with each increase in density above by-right levels.

By clarifying its affordable housing guidelines, Arlington County intends to reach a negotiated solution that will create a more seamless and satisfactory development process and outcome for the community and private sector.