

# Housing 101: Overview of Housing Funding Sources

**Jeffrey Lubell, Executive Director  
Center for Housing Policy**

June 28, 2009

Solutions for Working Families – 2009 Learning  
Conference on State and Local Housing Policy

Chicago, IL



# Key roles for local and state government

- A. Expand the availability of sites for development
- B. Reduce red tape and other regulatory barriers
- C. Harness the power of strong housing markets
- D. Generate additional capital
- E. Preserve and recycle resources for affordable homes
- F. Empower residents to purchase and retain private-market homes

# HUD Funding Sources

## Block Grants

- HOME Investment Partnerships Program
- Community Development Block Grant (CDBG) Program
- Emergency Shelter Grants
- Neighborhood Stabilization Program

## Production Programs

- Section 202 – Elderly Housing
- Section 811 – Housing for People with a Disability

## Ongoing Rental Assistance

- Section 8 Housing Choice Vouchers
- Project-based Section 8
- Public Housing

# Other Federal Funding Sources

## Internal Revenue Service

- 9% Low-Income Housing Tax Credits
- 4% Low-Income Housing Tax Credits

## Department of Agriculture

- Single-Family
  - Rural Housing Site Loans (523/524)
  - Mutual Self-Help Technical Assistance Grants
- Multi-family
  - Rural Rental Assistance (515/538)
  - Housing Preservation Grants (533)
- Farm Labor Housing
- Housing Application Packaging Grants
- Community Facilities

# Low-Income Housing Tax Credits

- Two kinds of low-income housing tax credits:
  - Limited supply of 9% credits
  - Virtually unlimited supply of 4% credits
- Current challenges
  - Market for credits is greatly depressed; lower yields lead to need for greater gap funding
  - States have the option of converting portion of 9% credits into grants
- Hopefully, as market recovers . . . .
  - 9% credit prices will rebound but not to pre-crash levels
  - 4% credits will once again become an opportunity to expand federal housing resource. Good fit for preservation and rehab.
  - To access 4% credits, need private-activity bond cap; state/local matching funds; and capacity to handle transaction.

# State/Local Funding Sources

## Direct Subsidies

- State/Local housing trust funds
- Mortgage revenue bonds / Multifamily bonds
- General obligation bonds

## Indirect Subsidies

- Tax abatements
- Tax increment financing
- Density bonuses / Inclusionary zoning

## Other

- Housing Finance Agency reserves
- Employer-assisted housing
- Public/Private loan pools

# Create or expand dedicated housing trust funds

- Flexible vehicles for financing affordable homes supported by a dedicated funding source, such as real estate transfer taxes or recording fees.
- Sometimes start without a dedicated funding source

## ***State of Arizona***

- Funded by 55 percent of the revenues from “unclaimed property,” such as inactive bank accounts, bank deposits, lay away fees and unclaimed refunds.
- Since 1988: more than \$150 million for affordable homes, with revenue rising to about \$20 million per year.
- Approximately one-third of the trust fund’s revenue must be spent in rural areas. Trust fund also supports affordable homes on tribal lands.

# Maximize use of multifamily and mortgage revenue bonds

- The proceeds of private activity bonds can be used for many purposes, including:
  - Mortgages for first-time homebuyers with incomes below the median (115% of AMI for large families)
  - Multifamily development (40% below 60% AMI or 20% below 50% AMI)
- Private activity bonds used for multifamily housing automatically qualify for 4% LIHTC – a huge bonus of federal \$\$s
- Mortgage Revenue Bonds have renewed importance in credit-constrained market

# Support G.O. housing bond issues



## Examples:

- 2006. In California, voters approved a \$2.85 billion bond issue to support affordable homes in November.
- 2004: Miami-Dade County, Fla. Up to \$170 million of bond proceeds from Building Better Communities General Obligation Bond program were allocated for affordable homes.
- 2001: Phoenix, AZ. \$33.7 million in general obligation bonds to develop affordable rental homes

# State/Local Funding Sources

## Direct Subsidies

- State/Local housing trust funds
- Mortgage revenue bonds / Multifamily bonds
- General obligation bonds

## Indirect Subsidies

- Tax abatements
- Tax increment financing
- Density bonuses / Inclusionary zoning

## Other

- Housing Finance Agency reserves
- Employer-assisted housing
- Public/Private loan pools

# Stimulate construction and rehabilitation through tax abatements

## *Portland, Ore.*



- The City of Portland has tax abatement programs to promote increased development near public transit, rental rehab, construction/rehab of owner-occupied homes in “opportunity areas,” and nonprofit ownership of affordable rental homes.
- As of fiscal year 2004-2005, some 12,725 homes were receiving one of the abatements.

# Use tax increment financing to fund affordable homes

## ***State of California***

- 20 percent of TIF revenue goes into Low- and Moderate-Income Housing Fund
- Last year, Cal. Redevelop. agencies deposited \$1.2+ billion into LMIHF and helped some 20,493 households secure affordable homes.



Homesafe (San Jose)

## **Other examples:**

- Maine has specifically authorized tax increment financing districts to fund affordable homes
- Chicago has made widespread use of tax increment financing to fund affordable homes

# Establish inclusionary zoning requirements or incentives

- A requirement or incentive for developers to include a modest percentage of affordable units within newly created developments.

## ***Petaluma, CA***

- General Plan requires at least 15 percent of new homes in developments of more than 5 units be affordable for low- or mod-income families.
- Developers have option of providing or funding affordable homes on another site.
- Generated 587 affordable homes between 1999 and 2006 – including both rental and homeownership opportunities – in conjunction with the development of 1,727 market rate homes.



Corona Ranch

# State/Local Funding Sources

## Direct Subsidies

- State/Local housing trust funds
- Mortgage revenue bonds / Multifamily bonds
- General obligation bonds

## Indirect Subsidies

- Tax abatements
- Tax increment financing
- Density bonuses / Inclusionary zoning

## Other

- Housing Finance Agency reserves
- Employer-assisted housing
- Public/Private loan pools

# Ensure that HFA reserves are used for affordable homes

- Local and state housing finance agencies charge fees to support their operations and build reserves
- While HFAs are not a piggybank, their income and/or reserves can be an important source of funding for affordable homes
  - New York City identified \$500+ million in reserves that could be used to support the Mayor's housing plan.
- It's imperative that HFA reserves be retained for affordable homes.
  - In 2004, 13 state housing finance agencies reported that their fiscal reserves were tapped by the state for activities unrelated to the agencies' programs.

# Leverage employers' interest in affordable homes for their workers

## Employer roles

- Funder of housing for employees or community
- Ally on bond issues, zoning board decisions, etc.
- Advocate for stronger housing policies



## ***Rochester, Minn.***

- \$19.5 million raised: Mayo Clinic (\$7 mil.) other employers (\$3 mil.); local foundations (\$1 mil.), Minnesota Housing Finance Agency (\$3 mil.) GMHF (\$5.5 mil.)
- To date: 486 affordable single-family homes and 313 affordable multifamily homes.
- Local leadership by the City of Rochester and the Rochester Area Foundation

# Leverage private capital with an acquisition fund

Helps affordable housing developers acquire property and cover pre-development costs

## ***New York City Acquisition Fund***

- Closed in 2006, consists of:
  - Fund guarantee pool
    - \$8 million in Battery Park City Authority revenues
    - \$32 million from various foundations, including Ford, Robin Hood, Heron, MacArthur, Rockefeller, Starr, New York Community Trust, Gimbel, Open Society Institute, and others.
  - **Senior lender debt** of up to \$190 million from major banks and financial institutions such as JPMorganChase, Bank of America, Citibank, Deutsche Bank, Fannie Mae, Wachovia, HSBC, North Fork, Mizuho, Signature, and M&T.