

HUMBOLDT COUNTY HOUSING TRUST FUND FEASIBILITY STUDY



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EXECUTIVE SUMMARY

The Center for Community Change (1999) defines a Housing Trust Fund as a source or sources of public revenue that are dedicated, by ordinance or law, to a distinct fund with the specific purpose of providing affordable housing. More and more communities are mobilizing to establish these locally based funding sources in order to meet local housing needs. When successfully established, Housing Trust Funds offer communities a source of funds that are flexible, efficient and means for leveraging other sources of funds to create and preserve decent, safe and affordable housing.

In Humboldt County, the majority of households are unable to afford the median priced home let alone the fair market rent for an apartment unit. To address the issue and identify possible solutions, stakeholders met at a 2006 Affordable Housing Summit co-sponsored by Humboldt County and the Association of Realtors. One of the initiatives that received near unanimous support to help address the unmet housing needs was the establishment of a Housing Trust Fund.

With support from the Humboldt County Community Development Block Grant, Humboldt Bay Housing Development Corporation (HBHDC) responded to support garnered for a Housing Trust Fund by conducting the ensuing Humboldt County Housing Trust Fund Feasibility Study. This study builds upon a Housing Trust Fund framework by incorporating stakeholder input on how the establishment of a Housing Trust Fund might work in Humboldt County.

A basic foundation for a Housing Trust Fund is presented based on information obtained from community development guidebooks and Housing Trust Funds in place in other California communities. Stakeholder input is then synthesized into recommendations on a suitable model for Humboldt County. To build on these recommendations, the study also suggests a clear set of goals, and projected administrative and operating expenses for the start-up and on-going management of a Housing Trust Fund.

The findings suggest that there is an opportunity for Humboldt County to benefit from public revenues that are dedicated by law to a distinct fund with the specific purpose of providing affordable housing. A multi-jurisdictional administrative structure with a pool of funding accessible across jurisdictional boundaries would require cooperation among jurisdictions, but would also enable jurisdictions with minimal affordable housing funding to access a source to leverage other funding. This way a more regional and coordinated approach to meeting housing needs could be achieved.

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BACKGROUND

A "trust fund" is generally recognized as property such as money or securities that is held for the benefit of a certain individual or use. In the case of affordable housing, the trust fund concept offers communities a way to dedicate local resources to the most critical housing needs. More and more communities are mobilizing to benefit from the flexibility, efficiency and means for leveraging other funds through a Housing Trust Fund.

Housing Trust Funds have been in existence in the United States for more than thirty years. Currently, there are more than 375 Housing Trust Funds nationwide with scores more in development. Each Housing Trust Fund is uniquely designed to address the specific local needs. This type of funding has proven to be an effective mechanism for raising and allocating funds for the production and preservation of affordable housing and can typically leverage an additional five to ten percent of funds from other funding sources.

In Humboldt County, the need and support for a Housing Trust Fund was solidified at the Humboldt County Affordable Housing Summit held in February 2006. At this summit, real estate professionals, public officials, private and nonprofit developers, urban planners and affordable housing advocates identified several potential initiatives that could help provide more housing choices affordable to Humboldt County residents. The Housing Trust Fund -- a locally controlled fund that receives dedicated public sources of revenues to support affordable housing -- was one initiative that received near unanimous support at the summit.

Following the support garnered at the 2006 summit, Humboldt County engaged with Humboldt Bay Housing Development Corporation (HBHDC) to conduct a feasibility study on implementing a Housing Trust Fund to address the housing needs in Humboldt County. Humboldt Bay Housing Development Corporation is a nonprofit Community Housing Development Organization (CHDO) with over a decade of experience in developing and managing affordable housing for low- and very-low income households. With support from the Humboldt County Community Development Block Grant, HBHDC researched the Housing Trust Fund model of funding and convened stakeholders to determine how a Housing Trust Fund might work in Humboldt County.

The ensuing report includes the following:

1. Statement of Purpose
2. Framework for a Housing Trust Fund
3. Identification of the Preferred Administrative Structure
4. Recommended long-term sources of revenue for the Housing Trust Fund
5. Recommended uses of the Affordable Housing Trust Fund
6. Clear Set of Goals for a local Housing Trust Fund
7. Projected Administrative and Operating Expenses for the Start-up and On-going Management of the Housing Trust Fund

STATEMENT OF PURPOSE

Along with most other California communities, Humboldt County is experiencing the effect of a shortage on housing that is affordable to low-income households. Since 2003, the County has experienced sharp declines in the affordability of the median priced home. Currently, only 15% of households are able to afford a median priced home in the County.¹ In the rental market, only 40% of renter households are able to afford the fair market rent for a 2-bedroom apartment of \$837 per month.² These indicators clearly suggest that the community is need of solutions that directly impact the creation of decent, safe and affordable housing.

In response to the need for programs and policies that directly address the current affordable housing crisis, this study examined the Housing Trust Fund model for funding affordable housing. The study also looked at how the establishment of a Housing Trust Fund might work in Humboldt County.

A review of Housing Trust Funds established in other California communities as well as information provided in community development guidebooks was used to develop a framework for a Housing Trust Fund to use in this study. Stakeholders were then convened and presented with the Housing Trust Fund framework. They were tasked with making recommendations on how a Housing Trust Fund might work locally based on their knowledge and observation of local housing needs. The research and findings were then compiled into this report.

FRAMEWORK FOR A HOUSING TRUST FUND

The framework for a Housing Trust Fund discussed in this report is provided by the Center for Community Change (CCC). The CCC is a non-profit dedicated to strengthening, connecting and mobilizing grassroots groups to enhance their leadership, voice and power.³ The CCC's core mission is to develop innovative projects and campaigns, in coordination with grassroots organizations across the United States. Upholding the belief that housing is fundamental to the health of every community, the CCC acts as an informational resource to organizations and agencies working to create, implement and expand Housing Trust Funds. This study relied heavily on a review of a variety of informational sources provided by the CCC to develop the Housing Trust Fund framework used in this study.

¹ The Humboldt County Association of Realtors maintains an Affordability Index, which measures whether or not a typical family could qualify for a mortgage loan on a typical home. The index can be accessed via the web at <http://www.harealtors.com/>

² Refer to the National Low Income Housing Coalition's *Out of Reach* Report available online at: <http://www.nlihc.org/oor/oor2008/>. The analysis is based on the assumption that a unit is considered affordable if it costs no more than 30% of the renter's income.

³ More information about the Center for Community Change is available at: <http://www.communitychange.org/>.

A Housing Trust Fund is defined as a source or sources of public revenue that are dedicated, by ordinance or law, to a distinct fund with the specific purpose of providing affordable housing (CCC, 2008). There are three key components to Housing Trust Funds:

1. Administrative structure,
2. Sources of ongoing revenues to place in the fund, and
3. A clearly defined program or programs with realistic goals and objectives.

Each component is briefly explained below.

Administrative Structure

There are over 600 Housing Trust Funds created by States, counties and cities throughout the United States. Although grassroots efforts have many times been the impetus for the creation of a Housing Trust Fund, all trust funds must be established through government action. Once the Housing Trust Fund is authorized by ordinance or law, an administrative organization or body assumes the oversight and operational responsibility over the Housing Trust Fund. A government agency, independent commission, non-government entity or a hybrid of the three typically fulfills the administrative responsibility of a Housing Trust Fund. In general, the administrative responsibility encompasses establishing programs, funding projects, and taking fiscal responsibility for the trust fund.

Housing Trust Funds administered by governmental agencies is common in communities across the nation. Under this administrative model, the Housing Trust Fund is established as a program of the jurisdiction where the fund operates. A department working in community development and housing related activities could provide a natural operational fit for the Housing Trust Fund if the extent operations already in place are efficient.

An independent commission with specific authority over the Housing Trust Fund is another administrative alternative. The commission is typically made up of governing body appointees. The commission then hires its own staff to operate the fund. The independent commission is commonly in place where there is no existing governmental department or agency to assume the responsibility.

Housing Trust Funds administered by a non-governmental agency typically takes the form of a private non-profit entity such as a community foundation. The non-profit entity may create a distinct board to oversee the fund's operations. Like the independent commission model, the non-profit hires staff to fulfill the administrative duties. Community foundations offer fiscal capability and a track record of leveraging other funding that could benefit a Housing Trust Fund. The challenge of having a non-governmental administrative body is granting authority to a private entity to govern a public fund.

A hybrid of the governmental agency, commission and non-governmental entity offers another administrative alternative. Incorporating the benefits of each alternative could better meet the needs of a community.

Sources of Revenue

A dedicated revenue source is a fundamental part of a Housing Trust Fund. A dedicated source is one that is committed by law through resolution, ordinance or legislation, which stipulates that a certain percentage of revenues are automatically deposited in the fund each year (CCC, 1999). Thus identifying and securing the dedicated funding source is crucial to the success of a Housing Trust Fund.

Nearly one hundred different sources of revenue have been dedicated to existing Housing Trust Funds throughout the United States. Most Housing Trust Funds have revenue from a tax or fee dedicated as part of their revenue sources. For example, the Sacramento City and County Housing Trust Fund receives impact fees from non-residential developers, while a Los Angeles based Housing Trust Fund places tax increment funds, hotel occupancy taxes and other sources that are dedicated and ongoing into the Housing Trust Fund.

Examples of revenue sources dedicated to California Housing Trust Funds are listed in Table A.

Table A: Examples of Sources of Revenues⁴

Jurisdiction	Dedicated Revenue Source
Alameda County, California	Linkage Impact Fees
Napa County, California	Linkage Impact Fees, Inclusionary Zoning
Santa Clara County, California	Bond Fees; General Fund; Private & Public Donations
Berkeley, California	General Fund; CIP Fund; Housing Mitigation Fees; Tax Increment Funds
Los Angeles, California	Street Furniture Revenues; Program Income; Tobacco; Settlement Funds; Hotel Occupancy Tax
Cupertino, California	Linkage Impact Fees

The revenues most commonly committed to Housing Trust Funds include exactions required of developers, real estate transfer taxes or document recording fees. New sources secured in communities across the nation include unclaimed utility deposits, gaming revenues, interest from rainy day funds, etc. The state of Vermont, for instance, collects a windfall profits on real estate sales tax.

⁴ Adapted from the Housing Trust Fund Progress Report written by Mary Brooks of the Center for Community Change. The report can be accessed online at: <http://www.snrpc.org/WorkforceHousing/Finance/HousingSurvey2002.pdf>

In the State of California, legislation has authorized direct and indirect funding to be placed into a Local Housing Trust Fund Matching Grant Program. The funds are administered by the California Department of Housing and Community Development and are available as a dollar-for-dollar match to local Housing Trust Funds that are funded on an ongoing basis from private contributions or public sources that are not otherwise restricted in use for housing programs. Eligible applicants are cities, counties, and cities and counties with adopted housing elements that HCD has determined comply with housing element law, and charitable nonprofit organizations. Funding through this program is expected to be available in the fall of 2008.⁵

On the national front, the National Housing Trust Fund was signed into law on July 30, 2008. Annual contributions from new business operations of Fannie Mae and Freddie Mac will fund the National Housing Trust Fund. These ongoing and permanent contributions therefore will not be dependent on fluctuations in the appropriations process. Ninety percent of the funding will be used for creating, preserving, rehabilitating or operating of rental housing while ten percent will assist homeownership activities for first time homebuyers. All funds must assist low-income households while at least seventy-five percent must benefit extremely low-income households. The fund will be administered by the U.S. Department of Housing and Urban Development (HUD).⁶

The extent that the revenue source is dedicated, however, determines the efficiency of the fund to support affordable housing. Not all funding sources that could be placed in a Housing Trust Fund are dedicated. For example, corporate support, voluntary support and general revenue funds are possible sources for a trust fund, but they are typically one time infusions of support, not dedicated and ongoing.

Opposition to the dedicating ordinance or resolution that authorizes the source of funding is expected. Careful consideration of the alternatives of various sources will help to identify a source or group of sources suitable for a community.

Programs

The "who," "what" and "how" components are defined by the Housing Trust Fund program. In other words, the program specifies the target population, eligible applicants, what projects are funded, the form of awards and the process for applying for funds.

Because Housing Trust Funds are established based on local priorities the community has the flexibility to design the funding programs in a way that meets the most critical housing needs locally. For example, the majority of public funding for affordable housing is authorized to be used for households earning 80% or less of the area median income. There is a growing segment of the population, however, that earns more than the 80% of area median income, but not enough to afford a home on the traditional real estate market.

⁵ Refer to the Local Housing Trust Fund Program information available at: <http://www.hcd.ca.gov/fa/ahif/lhtf.html>

⁶ More information on the National Housing Trust Fund is available online at: <http://www.nlihc.org/template/page.cfm?id=40>

The flexibility offered by a Housing Trust Fund is that the people can design the funding programs to meet the unique needs of the community.

Housing Trust Fund awards typically take the form of low-interest loans. Other forms include grants and other assistance such as Technical Assistance. Most consider new construction, rehabilitation, acquisition, and pre-development costs eligible for funding. Housing Trust Funds could provide match for other state or federal funds, transitional housing, and down payment assistance. A few provide funds for weatherization.

Almost all Housing Trust Funds consider nonprofit and for-profit developers, units of government, and housing authorities as eligible recipients, among others.

Housing Trust Funds also provide a source of funding to leverage other sources. Affordable housing projects require substantial public and private investment. A typical project requires multiple funding sources, including local matching funds evidencing local support for the project. A Housing Trust Fund would give sponsors of affordable housing projects access to a source of local match.

ANALYSIS AND RECOMMENDATIONS

Stakeholders were presented with the framework defined above and community models of Housing Trust Funds established in California communities. Stakeholders were asked to provide input based on their personal knowledge and observations about local affordable housing needs. The following recommendations are based on the input received from stakeholders that were convened at local affordable housing summits.

Identification of the Preferred Administrative Structure

Most county-wide Housing Trust Funds allocate two staff persons to administer and operate the Housing Trust Fund. A multi-jurisdictional approach is recommended for Humboldt County such as a redevelopment agency that has jurisdiction over both the city and county. Cooperation across jurisdictions could allow better coordination and leveraging of limited resources.

A multi-jurisdictional Housing Trust Fund could also enable a more regional approach to meeting the housing needs of Humboldt County across jurisdictional boundaries. Ideally the trust fund would be physically housed within a department with the most experience operating housing programs. The County of Humboldt, Economic Development Division, and the cities of Eureka, Arcata and Fortuna currently administer housing related programs. The fund should be governed by a multi-jurisdictional oversight body representative of local agencies with a charge to provide affordable housing. This will provide the fund with the ability to meet needs across the county without regard to political boundaries.

The following jurisdictions are possible participants in a multi-jurisdictional Housing Trust Fund:

- City of Fortuna Redevelopment Agency
- City of Eureka Redevelopment Agency
- Eureka Housing Authority
- Humboldt County Housing Authority
- City of Ferndale
- City of Rio Dell
- City of Arcata Redevelopment Agency
- County of Humboldt Economic Development Division
- City of Blue Lake
- City of Trinidad

Given the limited resources and the relatively low institutional knowledge county wide regarding Housing Trust Funds, combining efforts through a multi-jurisdictional Housing Trust Fund where all jurisdictions contribute and benefit is recommended.

Alternative recommendations are to create a new nonprofit organization with its own board, which could be established by the participating jurisdictions, or ask an existing nonprofit to oversee the Housing Trust Fund.

Recommended Long-Term Sources of Revenue

There are more than 200 possible revenue sources for Housing Trust funds. The sources are categorized into two types of ongoing revenue: fees and taxes. Fees are charges imposed to provide a benefit or service or to regulate an activity whereas taxes are a charge imposed to raise revenue for a specific purpose. In both cases the tax or fee must bear a reasonable relationship to housing in order to dedicate it to the Housing Trust Fund. Other possible sources include bond revenues, loan repayments and real estate escrow account fees. Table B summarizes potential sources of revenue.

Table B: Common Housing Trust Fund Revenue Sources⁷

Revenue	City	County	State
Fees	Developer Impact Fees	Document Recording Fees; Developer Fees; Taxes	Developer Recording Fees
Taxes	General Property; General Sales; Hotel – Motel	General Property; Real Estate Sales; Hotel – Motel	Real Estate Transfers
Other	Bond Revenues; Loan Repayments		Real Estate Escrow Accounts

Stakeholders at a 2008 housing summit expressed concern over the source of funding and felt that the same sectors, such as developers and businesses, are hit over and over to provide for all community needs. Any source of revenue that requires public authorization will be controversial.

Garnering public support for the Housing Trust Fund concept is integral to its success. Increasing an existing tax or fee may be more palatable than generating support for the passage of entirely new taxes and fees. When evaluating revenue sources its important to consider community values. If public support is not adequate to authorize a dedicated source of revenue, there is a potential to pursue private funding such as corporate and other private donations. If the revenue source is not dedicated by ordinance or law, however, the funding source would be severely limited and would not provide the full benefits of a Housing Trust Fund.

Multiple funding sources are recommended for a local Housing Trust Fund. Leveraging public and private sources would provide the benefits of a dedicated source and offers a larger pool of sources to pursue. Public sources recommended include in-lieu fees where developers constructing market rate housing would pay a fee towards affordable housing rather than developing affordable units. Another recommended source is commercial linkage fees where non-residential developers pay a fee that would be placed in the Housing Trust Fund for affordable housing uses. A challenge will be to identify a source that is suitable across jurisdictions. Private sources could come from corporations, private foundations and individual donations.

⁷ Table B was adapted from A Workbook for Creating Housing Trust Funds by Mary Brooks of the Center for Community Change. For more Housing Trust Fund resources access the CCC's website at: <http://www.communitychange.org/our-projects/htf>

Recommended Programs

The recommended uses of funding accessed by a Housing Trust Fund inform the way its programs are set up. Housing Trust Funds have been created to provide a more secure way of funding needed affordable housing. As a consequence, they tend to focus on serving those housing needs that remain unmet by other local, state or federal programs. More importantly, they have often worked to create housing opportunities for those most in need and with the lowest incomes. The following recommendations on uses of funding provided by a Housing Trust Fund are based on stakeholder input.

- Site improvements for affordable housing
- Environmental planning and remediation for affordable housing projects
- Support the creation of secondary units/ mother in law units
- Create permanent supportive housing units
- Help for down payment targeting residents with 80-120% of AMI
- Support small units and Single Room Occupancy units
- Rehab assistance
- Permit and planning assistance
- Housing for very-low income households - those earning 30% of Area Median Income
- Technical assistance
- Support for a program that promotes a Yes in My Backyard sentiment instead of Not In My Backyard
- Support a Housing/Jobs program to attract businesses
- Provide pre-development funds for affordable housing
- Gap financing and local matching fund to leverage funding from other sources

As shown above, there is no shortage of needs and uses for affordable housing funding. One of the main benefits of a local Housing Trust Fund is that the programs are based on local priorities. The difficulty lies in prioritizing the most critical housing needs.

GOALS SET FOR A LOCAL HOUSING TRUST FUND

The following set of goals for a local Housing Trust Fund was developed based on stakeholder input:

- Create a fund that has flexibility to address local housing needs
- Secure a dedicated source of reliable ongoing funding
- Be available for use across jurisdictions
- Flexibility in defining eligible borrowers for each program
- Create new partnerships with jurisdictions and funding agencies
- Create a local source of funding to leverage state and local dollars
- Provide housing in the form of rental and home ownership opportunities
- Preserve housing stock

PROJECTED ADMINISTRATIVE AND OPERATING EXPENSES FOR THE START-UP AND ON-GOING MANAGEMENT

There are two ways to pay administrative and operating costs of a Housing Trust Fund. The expenses are either paid by the agency operating the fund or paid by the revenues of the fund. Typically, the agency operating the Housing Trust Fund incorporates the costs into an existing operating budget. Another option would be to earmark a certain portion of the revenues placed in the Housing Trust Fund for administrative and operating costs. Table C indicates projected expenses for the start-up and ongoing management of a Housing Trust Fund.

TableE C: Projected Expenses

Expenses	Amount
Salaries & Benefits	\$ 85,280
Professional Services and Fees	\$ 5,000
Marketing & Promotional Materials	\$ 1,000
Office Supplies	\$ 1,200
Transportation & Travel	\$ 500
Other Overhead Expenses	\$ 2,500
Total Expenses	\$ 95,480

The projected expenses are based on one full-time executive and one part-time administrative staff person allocated to administering all aspects of the Housing Trust Fund. Other expenses are based on activities necessary to create and implement Housing Trust Fund programs and direct costs associated with operating and overseeing the program.

CONCLUDING REMARKS

This study looked at the feasibility of establishing a Housing Trust Fund in Humboldt County. The framework for Housing Trust Funds found throughout the nation and local priorities expressed by stakeholders were incorporated into recommendations on how a Housing Trust Fund might work locally. The housing needs are vast in Humboldt County and given the limited resources and rural nature of the community, combining efforts through a multi-jurisdictional administrative structure is recommended. This way a more regional and coordinated approach to meeting housing needs could be achieved.

Projected operating expenses provide a basis for decision makers to determine if a Housing Trust Fund would be incorporated into an existing agency or become a separate entity. Opposition to any publicly dedicated funding source is common and expected; however, the need for Housing Trust Funds is becoming more and more evident. The funding sources currently available for affordable housing are not enough to create, preserve, rehabilitate and operate housing for low-income households. A local Housing

Trust Fund would help bridge the funding gap so that the local priority for affordable housing will be met.

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