

PROSPECTS FOR AN AFFORDABLE HOUSING TRUST FUND IN MICHIGAN

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Community leaders around Michigan are increasingly aware of the limited availability of affordable housing for lower-income residents, and the critical need to find ways to increase the supply of low-cost housing. Affordable housing trust funds are public sector tools used to direct financial resources to the development of affordable housing for low-income households. Nearly 150 affordable housing trust funds are in operation around the nation, including 37 state-administered funds. The State of Michigan does not currently administer an affordable housing trust fund. This brief provides background information on the use of affordable housing trust funds. The authors examine several existing state-administered affordable housing funds and discuss how such a fund might emerge in the Michigan context.

The Continuing Crisis

Despite an historic period of economic vitality, poverty and its related hardships continue to confront large numbers of families across the United States. In 1999, at a time when poverty rates had reached a twenty-year low, more than thirty-two million Americans (11.8%) remained below the official poverty line. Michigan's poverty rates, while below the national average, continue to exceed ten percent. (footnote #1) Single parent families and households with children tend to be disproportionately affected by poverty. Families with low and moderate incomes often find it especially difficult to obtain affordable housing, and housing problems frequently contribute to further family crises.

Location	Estimated Number of Renters Unable to Afford Fair Market Rent		
	One Bedroom	Two Bedroom	Three Bedroom
Ann Arbor	34%	42%	54%

Benton Harbor	28%	36%	46%
Detroit	34%	40%	50%
Flint	39%	49%	62%
Grand Rapids	30%	36%	44%
Jackson	30%	38%	46%
Kalamazoo	34%	43%	54%
Lansing	32%	40%	52%
Saginaw	32%	42%	52%
Michigan	32%	38%	48%

Table 1. Percent of Renters Unable to Afford Fair Market Rent in Selected Michigan Communities (Source: National Low Income Housing Coalition, 2000)

Given the changing federal role in assisted housing – including the conversion of assisted units to market rates as use restrictions expire and the demolition of aging public housing units – the availability of subsidized low-income housing has decreased in recent years. (footnote #2) At the same time, market pressures associated with the strong economy have contributed to ever-rising housing costs. To address the decline in the availability of affordable low-cost housing, communities increasingly rely on nonprofit housing development organizations, but such groups have historically been unable to develop sufficient numbers of additional affordable units to resolve the crisis. (footnote #3)

With a limited supply of affordable housing units, many households must spend a greater share of their income on housing. The US Department of Housing and Urban Development (HUD) considers a housing unit "affordable" if it costs no more than 30% of household income. By this standard, as Table 1 indicates, the fair market value of rent is not affordable for a large portion of Michigan residents. To afford the average Fair Market Rent, a full time wage earner in Michigan would have to make \$11.18 per hour (this standard is referred to as the *housing wage*). Currently, the housing wage in Michigan exceeds the wages of two full-time minimum wage earners. (footnote #4)

Affordable Housing Trust Funds

As communities search for resources to create the needed supply of affordable housing, many have established housing trust funds to provide affordable capital for the construction and rehabilitation of low-cost housing. In addition to 39

counties and 34 cities around the nation, 37 states have established government-administered affordable housing trust funds. (footnotes #5) Although housing advocates support establishing a national housing trust fund, (footnote #6) such a proposal has not met with support in Congress.

The purpose of an affordable housing trust fund is to establish a dedicated source of revenue to provide ongoing funding for low-income housing programs that would not otherwise receive funding. A typical housing trust fund...

- *Taps a continuous, dedicated source of revenue.* Ideally, housing trust funds are characterized by a permanent source of revenue rather than being funded by annual appropriations. Dedicated revenues are often derived from taxes, fees, or interest on pooled accounts; this revenue is held separately and can only be used for the purposes set forth when the fund was established.
- *Is administered by a government agency.* Housing trust funds are typically administered by an existing housing agency of the sponsoring state or local government. In the case of state-administered funds, this is commonly the state housing finance agency.
- *Awards low-interest loans, grants or other forms of financial assistance to provide affordable housing.* Typically, funds supply financial assistance to housing developers, local units of government, housing authorities, or other service providers to address the needs of low- and very low-income households.
- *Finances a variety of housing activities.* Funds are usually designated to support new construction, rehabilitation, rental assistance, home purchase assistance, project-based subsidies, and other housing related services specifically targeted to meet the needs of low income households. (footnote #7)

Revenue Sources

The central feature of a housing trust fund is its source of revenue. At least 16 different revenue sources are used to finance the existing state housing trust funds. The size of revenue streams tapped by the 37 state housing trust funds ranges from \$300,000 to \$122 million per year. (footnote #8)

One significant revenue source is the real estate transfer tax. Twelve of the 37 state housing trust funds use such a tax, and most funds that receive more than \$10 million a year collect revenue from a real estate transfer tax as one of their

sources of income. Another common source of revenue is capturing the interest accumulated on pooled accounts associated with real estate transactions. Other revenue sources for affordable housing trust funds include penalties on failure to pay or late payments of real estate excise taxes, or fees on a variety of other real estate related transactions. In practice, several revenue streams may be combined to generate acceptable levels of funding; in some states dedicated revenue streams are supplemented by general fund appropriations by the legislature.

Methods of Administration

The second defining feature of a housing trust fund is its method of administration. Of the 37 existing state housing funds, eighteen are administered by state housing finance agencies or their equivalents. Different agencies of the state, such as the departments or divisions of housing and community development or community affairs, commerce, economic development, or business and industry administer eighteen others. A quasi-public board established for that purpose administers one housing and conservation fund. (footnote #9)

Staffing to administer statewide trust funds vary from one to twenty-two staff persons. Administration budgets among the 37 funds vary from only a few thousand dollars to nearly \$1.5 million annually.

Selected Trust Fund Profiles

In considering a model for the State of Michigan, six state-administered funds are examined. States were selected for comparison on the basis of having poverty and housing needs similar to Michigan. Midwestern states with similar attributes were identified as reasonable comparisons, with Arizona also included to highlight its use of an innovative revenue source.

Ohio

The Ohio Housing Trust Fund (OHTF) was established by the General Assembly following the voter-approved Constitutional Amendment for Housing in 1990, and initially received \$2.5 million annually in unclaimed funds from the Ohio Department of Commerce. Over ten years, appropriations for the fund have totaled \$126.5 million (from interest on the state's budget stabilization and general revenue funds, and interest on the balance in the housing trust fund itself), including \$50.5 million in the current biennium. Since 1993, the General Assembly has on several occasions proposed increasing the real estate transaction

Recordation Fee to generate a dedicated revenue stream for the OHTF, but this dedicated revenue source has not been approved.

Ohio Housing Trust Fund dollars may be used for a full range of housing activities that serve primarily low-income families and individuals, including pre-development costs, rental assistance, housing counseling, homebuyer assistance, handicapped accessibility modification, rehabilitation, home repair and new construction. Since 1991, over 83,200 families have received assistance through programs of the trust fund. More than 3,000 new housing units (homes and apartments) have been constructed, another 1,500 rental units have been rehabilitated, and over 6,800 homes have been repaired or rehabilitated using OHTF funding. Fund managers estimate that every dollar the OHTF provides leverages an additional five dollars in private investments and federal resources.

The Ohio Department of Development administers the trust fund, advised by a 14-member committee representing various sectors of the housing and lending industry and local governments. (footnote #10)

Illinois

To support its Affordable Housing Trust Fund, the State of Illinois increased its real estate transfer tax from \$.50 to \$1.00 per \$1000 on the sale price of real property. Half of the revenue collected is deposited into the Affordable Housing Trust Fund, generating approximately \$20 to \$22 million per year.

The majority of funds are allocated to very low-income households (up to 50% of area median income). The types of projects eligible for consideration include the acquisition and/or rehabilitation of existing housing, new construction, the adaptive reuse of non-residential buildings, and special housing needs for the mentally ill, developmentally disabled, physically handicapped, or single parent families. Between 1989 and 1999, approximately \$119 million was generated from the real estate transfer tax to fund low and very low income housing, and the trust fund provided support for 13,505 housing units. For every dollar that the trust fund provides, it estimates more than \$5.50 is leveraged from other sources.

The Illinois Housing Development Authority and the Affordable Housing Advisory Commission administer the trust fund and review applications for funding. To ensure an equitable geographic distribution, trust fund resources are allocated around the state (to the Chicago metropolitan region, other

metropolitan regions, and non-metropolitan regions) according to a formula based on U.S. Census data. (footnote #11)

Minnesota

The Minnesota Housing Trust Fund is financed by the interest earned on real estate brokers' pooled interest-bearing trust accounts, which consist of earnest money deposits on purchases of real estate. Interest accruing on revenue bond application fees, forfeited fees, and fees not returned have provided additional revenues. To supplement the fund, the legislature has also

appropriated general funds; the total size of the Minnesota Housing Trust Fund is currently about \$2 million per year. (In comparison, funding requests totaled nearly \$39 million in 1998.)

The Housing Trust Fund provides zero-interest, deferred loans for the development, construction, acquisition, preservation, and rehabilitation of affordable housing for renters and homeowners. At least 75% of rental units must serve participants at or below 30% of area median income. All ownership units must serve households at or below 50% of the median. Since its inception, the fund has awarded \$12.7 million to over 200 projects.

More than 4,500 housing units have been constructed, providing affordable housing for an estimated 7,600 Minnesota residents.

The Minnesota Housing Finance Agency (MHFA) administers the fund. An eight member advisory task force consisting of realtors, lenders, nonprofit developers, low-income persons, housing advocates, and builders assists the MHFA. The task force attempts to target funding to projects which: are creative or innovative and could serve as models for other projects; will provide long term affordable housing; have strong local support; and contribute to a statewide distribution of funds. (footnote #12)

Missouri

The Missouri Housing Trust Fund collects revenue from a recording fee on all real estate documents. Annual funding levels have averaged about four million dollars in recent years.

The trust fund provides support for a variety of activities, including rental housing production, housing and related services for the homeless and rental

subsidies. All assisted families and individuals must have household incomes at or below 50 percent of the area median income; at least half of those assisted must have household incomes no greater than 25 percent of the area median. At least 30 percent of funds must be allocated to nonprofit organizations. Other criteria used to select proposals for funding include: geographical distribution, demonstrated need, the ability to leverage funds, the reasonableness of the development's costs and rents, and readiness of the applicant to proceed. Programs that received funding in 1999 included emergency aid, home repair, operating support, rental assistance, homeless shelter and transitional housing construction and rehabilitation, and multifamily housing projects.

The Missouri Housing Development Commission (MHDC) administers this fund. The MHDC publishes a Notice of Fund Availability (NOFA) at least once a year and eligible interested parties submit applications in response to this NOFA. (footnote #13)

Nebraska

In 1997, the Nebraska legislature approved a real estate transfer tax increase, from \$1.50 to \$1.75 per \$1000 value, and redirected one dollar of the tax from the general fund to the Nebraska Affordable Housing Trust Fund (NAHTF) until 2003. In addition, certain fees paid for the registration of securities sold in the state are devoted to the fund. Together, over six years, the state expects these sources to generate \$24 million for the trust fund.

The Nebraska fund has three main areas of focus: rehabilitation of existing housing; development of new single or multi-family units; and technical assistance, design and financial services to nonprofit housing development organizations. Operating cost assistance for nonprofit organizations may be provided, up to 50% of total cost and not to exceed \$25,000. In 1998, assistance from the NAHTF, when leveraged with private investment, resulted in the development of a total of 714 units.

The Nebraska Department of Economic Development (DED) administers the NAHTF. The DED allocates the monies with the assistance of an interagency review committee that has representatives from the state departments of Health, Economic Development, Education, Social Services, and Public Institutions. Revenue to support the fund is collected by the counties and remitted to the Department of Revenue, which distributes it to the DED. (footnote #14)

State	Year established	Estimated annual revenues	Revenue source(s)	For further information:
Arizona	1988	\$ 6 million	Percentage of unclaimed property fund	http://www.commerce.state.az.us/housing/ahtf1.shtml
Illinois	1989	\$ 20 - \$22 million	Portion of real estate transfer tax	http://www.ihda.org/cd.htm
Minnesota	1989	\$ 2 million	Interest on pooled real estate deposits; interest on fees; appropriations	http://www.mhfa.state.mn.us/
Missouri	1994	\$ 4 million	Real estate document recording fee	http://www.mhdc.com/programs/mhtf.html
Nebraska	1996	\$ 4 million	Portion of real estate transfer tax; securities registration fees	http://crd.neded.org/housing/nahtf/
Ohio	1991	\$ 25 million	Appropriations (from interest on various funds)	http://www.odod.state.oh.us/cdd/htf/default.htm

Table 2. Profiles of Selected State Housing Trust Funds

Arizona

Since 1998 the Arizona Housing Trust Fund has received a percentage from the state's unclaimed property fund. The trust fund receives 55% of unclaimed deposits and interest on unexpended funds. The fund expects to receive approximately \$6 million annually from this source.

The Arizona Affordable Housing Trust Fund provides grants and loans to cities, towns, counties, local housing authorities, tribal housing organizations and nonprofit organizations. Eligible projects include new construction, acquisition and/or rehabilitation of housing to be used for homeownership, rental, transitional or emergency shelter, on-going assistance programs such as the rehabilitation of housing occupied by low-income homeowners, rental subsidies assistance, and operating costs for emergency or special-needs housing. Special set-asides are also available to provide funding for planning and pre-development activities and homebuyer assistance programs.

Funded projects must serve households with incomes at or below 80 percent of the area median income and maintain affordability for at least 5-15 years. The

fund is required to set aside funds (at least 20% of its total allocation) for rural projects, and is also required to target assistance to households with children.

The Arizona Department of Commerce's Office of Housing and Infrastructure Development (HID) administers this fund, assisted by five other housing assistance programs. Within the HID structure the fund specifically has four full time staff members. The staff includes a housing program manager, a housing trust fund manager, a housing compliance officer, and a housing trust fund contract specialist. HID also has a Housing Commission that functions in an advisory capacity. (footnote #15)

The Michigan Context

Existing Statewide Housing Funding

In recent years, community leaders and government officials in Michigan have paid increased attention to issues of affordable housing and the potential roles for state government in support of housing needs. Emerging networks of nonprofit community development organizations continue to call attention to the needs and opportunities in the low-income housing arena.

Within the state of Michigan, several organizations currently provide financial support for affordable housing development statewide. Others provide local or targeted support to specific communities. Among the statewide organizations are the Michigan State Housing Development Authority (MSHDA) and the Michigan Housing Trust Fund (MHTF).

MSHDA, a quasi-governmental body created in 1966, serves as the housing finance agency for the state of Michigan. As such, MSHDA has the authority to issue revenue bonds, and the responsibility within Michigan for administering federal housing assistance programs including Section 8 and low income tax credits.

MSHDA provides various programs in four areas: rental, home purchase, home improvement, and community development. MSHDA's annual administrative budget is about \$28 million, while annual funding provided for housing related projects total about \$300 million. (footnote #16)

The Michigan Housing Trust Fund (MHTF) is a non-profit [501(c)(3)] revolving loan fund founded in 1985 to serve as a source of low interest loan capital for community-based housing development in Michigan. The Trust Fund makes

investments and below market rate loans to community-based organizations to develop affordable housing. The MHTF enhances its loan products with technical assistance, both developmental and organizational.

Since inception, the Trust Fund has received over \$4 million in loan capital from socially motivated investors, and has made 80 loans to 45 organizations in 27 Michigan cities. The MHTF estimates that these loans have leveraged an additional \$17 million in other funding, and have assisted in the production of 743 affordable housing units. Through its technical assistance program, the MHTF has provided financial packaging, strategic planning and organizational and Board development services to over 50 nonprofit organizations.

Recent State Government Activity

To date, direct state funding has not been made available for affordable housing investment in Michigan. Neither the state government nor any of its 83 counties administer an affordable housing trust fund; the City of Ann Arbor administers the only local government trust fund for affordable housing in the state.

In 2000, Michigan dedicated \$25 million in unexpended federal TANF (Temporary Assistance for Needy Families) funds to support affordable housing programs. This fund is administered by MSHDA via an interagency agreement with the Family Independence Agency to support programs that increase homeownership opportunities for low-income families. About \$10 million of the TANF resources in this fund were devoted specifically to Habitat for Humanity projects. Other recent state actions, such as legislation streamlining the disposition of tax-reverted properties and bills to offer incentives for urban redevelopment efforts, may serve to encourage some additional investment in affordable housing development.

Since 1999, leaders in the Michigan State House of Representatives have developed two sets of bills proposing the establishment of an affordable housing trust fund. ^(footnote #17) The most recent proposal, developed in 2000-01, identifies as the source of revenue a tax credit for businesses that voluntarily contribute to an affordable housing fund to be administered by MSHDA. While it is difficult to accurately estimate the amount of revenue such a fund might generate on an annual basis, it would have a strong relationship to the economic vitality of the Michigan business community. This set of bills has yet to be considered by the full State House of Representatives.

Conclusion

One obvious factor in determining the maximum production levels of affordable housing for low-income households is the availability of ready capital for acquisition, construction, rehabilitation, and related services. (footnote#18) In recognition of this, three-quarters of the states in the nation commit government resources to the affordable housing funds.

While Michigan's political leaders have demonstrated recent support for assisting affordable housing development, including a one-time \$25 million allocation of unspent federal dollars, state revenues have not been devoted to affordable housing. Legislators are considering – for the second consecutive session – the establishment of an affordable housing trust fund.

The process of creating a public commitment for affordable housing in Michigan will require public officials to address a variety of issues. The sources of funding, especially whether they are annual appropriations or dedicated revenue, remains a crucial question. The details of administering a housing trust fund, including its relationship to existing statewide efforts to direct capital into housing production, must also be clarified. Finally, the core purposes of the fund will need to be well understood and clearly articulated – and reflected in a fund's permitted and preferred activities. This might include the types of projects to be supported, the extent to which there might be a set-aside for nonprofit or community-based developers, the question of providing organizational operating support, the advisability of a regional distribution formula, and so on. A public commitment to providing affordable housing to Michigan's families will continue to be a major challenge for the 21st century.

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7

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17

In the 1999-2000 legislative session, Rep. William Byl (R-Grand Rapids) introduced two bills (HB 5303 and 5304) that proposed the establishment of a housing trust fund administered by MSHDA. The bills were not approved by the House and were not introduced in the Senate before the session ended. In the current (2000-01) legislative session, a similar set of bills (HB 4682-4684) was introduced by Reps. Patricia Birkholz (R-Saugatuck), Jerry Kooiman (R-Grand Rapids), and Mark Jansen (R-Grand Rapids). If approved, these would establish an affordable housing trust fund administered by MSHDA, and would establish a state single business tax credit to encourage voluntary contributions to the fund. These bills were assigned to House committees in May 2001, but have not been acted upon further, nor has an equivalent Senate package been introduced [http://www.michiganlegislature.org].

18

Several other key factors that warrant attention include: organizations' capacity and commitment to efficiently produce low-cost housing units; a policy environment that encourages or discourages such development; and market forces including the cost of land, materials, labor, and credit.

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