



Session 5B:

## **Asset Leveraging: Developing a New CA Housing Trust Fund**

**Moderator:** Luis Granados, Executive Director, Mission Economic Development Association

**Panelists:**

- Julie Spezia, Executive Director, Housing California
- Carole Norris, Vice President, ICF Consulting

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### **SUMMARY OF TOP THREE ISSUES THAT EMERGED:**

1. There is a distinct need to create a stable and on-going source of funding for housing development.
2. There are strong challenges in identifying a specific source of funding that would create revenue on an on-going basis. Some revenue sources that are being considered include: real estate transaction fees (not viable in CA b/c of Prop 13), document recording fees, unclaimed property deposits, title insurance fees, etc
3. CA's Housing Trust legislation will be introduced in 1/05 and will likely come up for a vote on 11/06.

### **CHALLENGES:**

- Finding the right funding source that will generate the appropriate level of funding.
- Obtaining the level of political support for this issue.

### **OPPORTUNITIES:**

- Political and organizing effort is beginning right now and there's ample opportunity for providing support for this measure.

### **NEXT STEPS:**

- Identifying the appropriate source of funding.
- Engage in garnering political support for this measure.

### **DISCUSSION NOTES:**

In America, there is no better way to accrue assets than through homeownership. However, most low- and medium-income families find that they cannot afford the cost of purchasing a home. This is particularly the case in California, where there is an ongoing shortage of all types of housing units, and a particularly acute lack of affordable units. In many areas, the production of new housing is complicated by land constraints. There is also an ongoing demand for higher-end housing units, which are the preference of for-profit homebuilders. However, these units are unaffordable to low- and moderate-income workers. In addition to denying people access to the asset-building benefits of homeownership, California's affordable housing crisis also promotes transportation concerns, environmentally damaging sprawl, gentrification, and other quality-of-life issues.



The construction of new affordable units will require both the creative use of land and policy measures that promote the development of affordable units. Such measures must include financial mechanisms to incentivize affordable housing development.

Currently in California, state money for affordable housing typically comes from bonds. These need to be voter-approved, are sporadic, and inefficient in that they need to be repaid with interest. Given the ongoing and significant shortfall of affordable housing in California, there is substantial need for a permanent and stable financial stream to support affordable housing. A well-funded California Housing Trust Fund could provide the solution to this financing need.

Housing trust funds are a dedicated, protected resource to fund housing. They can be established at any level, from local to national, although those that cover large areas are better served with a local component that can assess and meet local needs. Housing trust funds also work best when they are designed to work with other funding streams, so as to maximize leveraging potential. The money may be used for rental and for homeownership housing. Although homeownership is preferable from an asset-building standpoint, affordable rental housing can provide the financial stability families need to support other asset building strategies.

The State of California already has an established Housing Trust Fund. However, this program received funding for only in its first year – 1985. Therefore, for the past 20 years, a framework has existed for funding affordable housing, but no money. California is one of 31 states with housing trust funds (although data on how many are similarly unfunded is not currently available). Within California, there are approximately 18 existing local housing trust funds, and about as many being explored. These will serve to benefit from incentives included in 2002's Prop 46. Nationally, it appears that there is also a good chance that a nationwide housing trust fund will be established.

There are numerous potential ways to fund California's Housing Trust Fund. From a programmatic standpoint, it is considered more efficient to raise money from one source, although it is always difficult to balance income with outflow. Examples of fundraising mechanisms include the development linkage fees used by both the cities of San Mateo and San Diego, while Florida uses a real estate transfer tax (which would be forbidden in California under Prop 13). Besides a transfer tax, there may be other real estate-related mechanisms to help pay for a trust fund. Other ideas include a sales tax (which is regressive and polls poorly), lowering the threshold on homeownership tax deductions and using the windfall (this is opposed by builders, who use the windfall as a marketing mechanism), and a reduction in the price of title insurance. All of these mechanisms are being explored by Housing California.

Housing California is actively exploring ways to pass legislation funding the Housing Trust Fund. The preferable choice involves the state legislature placing it on the public ballot or passing a constitutional amendment – this approach would promote the creation of bipartisan support. The second choice is for a citizens' ballot initiative. The strategy is to push for a November 2006 timeline, to enable time for coalition building. This coalition building is ongoing, both with the legislature and with other stakeholders in housing development throughout the state.



It is unclear at this time how a funded Housing Trust Fund would distribute the money. Possibilities include formulas based on amount of low- and medium-income workers, or geographic criteria, or some combination thereof. Funds could also be distributed directly to projects, or in block grants to local housing agencies. The money may be used for rental and for homeownership housing. Exact details will emerge as the legislation develops. Mechanisms would also be needed to ensure that cities contributed their fair share of affordable housing.

#### Resources

- On February 15, 2005, Housing California will release a report detailing how other states run housing trust funds. Stay informed at <http://www.housingca.org/>.
- The California Health Interview Survey (CHIS) at UCLA has conducted research on the link between health care and the housing crisis. <http://www.chis.ucla.edu/>
- HUD's Regulatory Barriers Clearinghouse presents information on how communities can overcome various barriers (self-imposed and otherwise) to developing affordable housing. <http://www.huduser.org/rbc/>
- Housing California will host its annual housing conference in Sacramento on April 25-26. This conference will focus on the issue of housing trust funds. <http://www.housingca.org/>
- The future home of information on the housing trust fund campaign will be [www.homes4ca.org](http://www.homes4ca.org).