



A Community Forum on Affordable Housing

Keeping The Economic Engine Running
Solutions for Tomorrow



Affordable Housing + *Finance*

Issue:

Affordable housing is about lowering the cost of housing for families with low and very low incomes to the point they can occupy that housing without spending more than 30 percent of their income in housing expenditures. The cost components of housing - *land, materials, labor and financing* – are influenced by supply and demand in local housing markets. Currently, the costs for these components are so high that rental and owned dwellings are priced above the ability of lower-income families to pay rent and home purchase costs.

While all of the above components can be influenced to affect the cost of housing, financing is most often the tool used to make housing affordable. Through the use of equity, low cost or grant resources, a portion of the housing cost is deferred or forgiven to make housing units affordable.

In Charlotte, the greatest unmet need is for the over 17,000 housing units needed for families earning up to \$16,000 annually. Affordability for these families means paying no more than \$400 per month for housing.

Charlotte's Response:

Charlotte has used a number of conventional and non-conventional techniques to finance affordable housing. A conventional technique is loans from financial institutions, such as a bank. Sometime terms are negotiated

at less than prevailing market rates to support affordable housing.

Non-conventional techniques have included a host of federal, state and local resources to finance affordable housing. Unlike financing from commercial sources, these sources of capital are loaned at less commercial rate of interest or grant resources to support affordable housing. Federal resources have included Community Development Block Grant (CDBG), HOME Partnership and Lead Based Paint Grants to produce affordable housing.

Locally, affordable housing projects have received Low Income Housing Tax Credits (LIHTC), which is sponsored by the Internal Revenue Service and administered by the North Carolina Housing Finance Agency. LIHTC provides equity infusion into affordable housing projects through the use of tax credits provided investors in the housing development. Also, local projects have benefited from the State Housing Trust Fund, which is administered by the North Carolina Housing Finance Agency.

The City has also received Emergency Repair Grant Funds and, most recently, Energy Assistance Grant funds from the North Carolina Finance Agency. These funds are targeted to revitalization areas for rehabilitation of housing.

The City has a local Housing Trust Fund. Established in 2002 and funded primarily through general obligation bonds, the trust fund has raised over

\$57 million for affordable housing. To date, the trust fund has obligated about \$43 million to help finance the construction and rehabilitation of 2,600 housing units.

Also, the City of Charlotte has invested about \$3 million annually for affordable housing. These funds have been used for construction, rehabilitation and home purchase assistance.

Finally, the City of Charlotte has authority to use Tax Increment Financing for affordable housing. This source has not yet been used in the City.

Other Communities Response:

To raise money for affordable housing, different communities have tried varied and layered approaches to financing affordable housing. Some of the more innovative ideas are as follows:

Local Trust Funds With Dedicated Funding Source – Housing Trust Funds are distinct funds created by cities, counties and states with a dedicated funding source. They do not depend on interests or earnings from fixed funds or contributions from corporations, financial institutions or foundations.¹ Housing Trust Funds are funded from a variety of revenue sources:²

- transit occupancy tax (hotel/motel tax)
- property tax
- real estate transfer tax
- housing excise tax
- sale of city-owned land
- settlement funds
- CDBG loan
- business license tax
- sales tax
- use tax (modification of a sales tax)
- redevelopment tax increment
- city-owned parking revenues
- UDAG

¹ <http://www.policylink.org/EDTK/HTF/>

² Brooks, Mary. Housing Trust Fund Progress Report 2002 Local Responses to Community Needs, Center For Community Change, 2002.

More info at www.housingcharlotte2007.org

- repayments
- repayments
- bond revenues

For example, San Diego, California, uses linkage impact fees to fund its trust fund. Washington, D.C., uses land transfer tax to fund its housing trust fund. As of July 2005, there were an estimated 412 Housing Trust Funds in the United States, with 293 operated by cities³.

Tax Increment Financing – Affordable Housing Tax Increment Financing (TIF) creates money for housing by allowing municipalities to capture the new property tax revenue generated by the housing constructed in the TIF district and using all or part of the revenue to support affordable housing in the district.⁴ The tax revenue stream from the development supports bond financing to produce additional affordable housing in the district. Cities that have used tax increment financing to support housing development include Atlanta, Georgia, and Minneapolis, Minnesota.

Supportive Housing Model – This is a “housing first” model that seeks to locate low income individuals in housing first and provides them with supportive services from a wide variety of agencies to improve their lives. The funding for supportive housing is a shared model combining private, public and non-profit funding sources to provide housing. This housing is typically targeted to homeless or individuals at risk who need a supportive environment to get back on their feet. Toronto, Canada, has a supportive model in which the private sector, the municipality and faith community provide housing.

³ Lubbell, Jeffery, Increasing the Availability of Affordable Housing: A Handbook of High Impact State and Local Solutions, Center for Housing Policy, January 2007.

⁴ Affordable Housing Tax Increment Financing: Special Achievement, National Council of State Housing Financing Agencies, http://www.ncsha.org/uploads/06AW_ME_SA.pdf