

Homes *for* Working Families

Increasing the Availability of Affordable Homes



**A Handbook of High-Impact
State and Local Solutions**

Prepared By



changing policy

to bring working families home

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State and Local Solutions**

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Center for Housing Policy

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Research Conducted by the Center for Housing Policy

As the research affiliate of the National Housing Conference, the Center works to broaden understanding of America's affordable housing challenges and examines the impact of policies and programs developed to address these needs. Combining research and practical, real-world expertise, the Center lays the groundwork for the development of concrete and politically viable policies and programs that can be used to promote affordable housing across the country.

Research Report for Homes for Working Families

Homes for Working Families is a national, nonprofit organization dedicated to advancing policy changes that enable more of America's working families to find safe, good-quality homes they can afford. It focuses on the families of teachers, police officers, retail associates, office workers and others who struggle to find homes they can buy or rent in the communities they support. It pursues its mission at the local, state and national levels.

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The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The Foundation's philosophy is that children do well when their families do well and that families do better when they live in supportive communities. The Neighborhood Development Unit at Casey advocates for mixed-income communities, responsible relocation, responsible redevelopment and increasing the availability of affordable housing.

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Executive Director, Center for Housing Policy

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Introduction

National Crisis Squeezing Working Families

In many communities, the high cost of homes makes it difficult – or sometimes impossible – for police officers, firefighters, teachers, nurses and other essential workers to live in the communities they support. Higher home costs force working families to live far from their jobs, limit first responders' capacity to promptly address emergency situations, and restrict workers' abilities to participate in community life after their workdays conclude.

As home costs escalate, the promise of a safe, decent home also becomes unattainable to retail associates, office workers and other citizens who form the foundation of our communities, depleting the rich mixture of families essential to dynamic neighborhoods. Employers, in turn, lose the ability to attract and retain workers who sustain and grow their businesses, and local economies begin to suffer.

Nationwide, some five million working families had critical housing needs in 2003 – an increase of 60 percent since 1997.¹ The vast majority of these families spent half or more of their monthly incomes on the costs of owning or renting a home. Others had critical housing needs because they lived in homes with severe physical problems, such as a lack of reliable plumbing or heating.

Millions of other working families have moderate housing cost burdens or can only afford to live far from their place of work, forcing them to endure long commutes and spend much of their housing cost savings on transportation.²

These problems undermine the well-being of millions of working families in communities across the country. People who cannot afford the costs of their homes may be only one paycheck away from foreclosure or eviction. They also may have insufficient income left over to afford necessary food, health and education expenses. These problems may be compounded by the stress of continually struggling to meet unaffordable housing costs, and the expense and lost time with family associated with lengthy commutes.

The Importance of State and Local Solutions

These are serious problems, but fortunately, a wide range of successful solutions has been developed and implemented by communities across the country. The purpose of this study is to identify and summarize high-impact solutions that state and local leaders – including elected and appointed officials, employers and other decision-makers – can adopt or champion to help working families afford homes in the communities they support.

Housing costs, needs and challenges vary substantially from place to place. What works in one place may not work in another. While states and localities can and should learn from the experiences of other communities, ultimately, each community needs to develop a comprehensive housing strategy tailored to fit its specific needs.

“...A WIDE RANGE OF SUCCESSFUL SOLUTIONS HAS BEEN DEVELOPED AND IMPLEMENTED BY COMMUNITIES ACROSS THE COUNTRY.”

A number of solutions can only be implemented at the state or local levels. For example, there is a great need to reform the local regulatory environment to remove obstacles to the development of both affordable and market-rate homes. Needed reforms might include changes in local zoning policies to permit the development of homes on smaller lots and at higher densities – to increase the overall supply of homes and bring land costs down to affordable levels – or expedited permitting processes to cut costs associated with development delays. These policies would require local action.

State and local action also can help “fill the gaps” in federal policies set at the national level, which may or may not be flexible enough to meet local needs. In order to target limited federal funds to families with the most severe needs, federal funding for the construction, operation, rental or purchase of affordable homes tends to be directed to families at the lower end of the income spectrum. While these rules may make sense at the national level, in some “high-cost” markets where homes are expensive relative to the national average, they can leave out significant numbers of families with pressing needs.

State and local action also can help reduce the inequities associated with federal tax policies that support homeownership, which tend to benefit families with relatively higher incomes, providing only modest support (or no support at all) to working families with moderate incomes. Many working families who own homes do not benefit from the mortgage interest deduction because their itemized deductions are less than the standard deduction.

There is, and will always be, a critical role for the federal government to play in making homes more affordable. Despite more than \$30 billion in annual federal funding to help low- and moderate-income families afford their homes and more than \$69 billion in annual tax expenditures related to the home mortgage interest deduction and other tax breaks for housing,³ unmet needs remain great. Since a major increase in federal funding for affordable homes in the near term is unlikely, action at the state and local levels is critical.

What Can State and Local Leaders Do?

Our research uncovered six broad strategies that state and local leaders can use to increase access to affordable homes for working families:

- Expand the availability of sites for the development of affordable homes
- Reduce red tape and other regulatory barriers to affordable homes
- Harness the power of strong housing markets
- Generate additional capital for affordable homes
- Preserve and recycle resources for affordable homes
- Empower residents to purchase and retain market-rate homes

The pages that follow summarize each of these six strategies and highlight 22 high-impact policies that state and local leaders can adopt or champion to help bring more homes within reach of working families. A complete analysis of each high-impact policy, along with more detailed examples and references for additional information, may be found in the full report of this research, which is available at www.nhc.org and www.homesforworkingfamilies.org.

Six Strategies for Increasing the Availability of Affordable Homes

Strategy 1.

Expand the Availability of Sites for the Development of Affordable Homes

In most communities in which homes are out of reach of working families, land is quite expensive. By making publicly owned land and tax-delinquent properties available for the development of affordable homes, local governments can neutralize this obstacle. Governments also can expand the supply of sites for new homes through changes in zoning rules that make new areas available for residential development or increase the number of homes that can be built in existing residential areas.

Strategy 2.

Reduce Red Tape and Other Regulatory Barriers to Affordable Homes

In the housing development world, time is money. The longer it takes to gain all the necessary approvals to build a home and the more uncertainty involved in the approval process, the higher the costs of newly built or renovated homes. By expediting the approval process for affordable homes and addressing other regulatory barriers that drive up costs — such as overly restrictive zoning rules and building codes, and regressive fees — state and local governments can cut through the red tape and expand the supply of affordable homes.

Strategy 3.

Harness the Power of Strong Housing Markets

The greatest housing challenges are found in hot housing markets, where the costs of buying or renting a home are increasing much faster than incomes. Fortunately, there are steps that state and local governments can take to capitalize on strong housing markets in order to expand the supply of affordable homes. These policies include strategies for tapping the increased tax revenue associated with increases in property values and an active real estate market, as well as providing incentives for or requiring the inclusion of a modest number of affordable homes within new residential developments.

Strategy 4.

Generate Additional Capital for Affordable Homes

While successful efforts to reduce regulatory barriers can help expand the supply of affordable homes, in many communities, additional resources are needed to bring the price of homes within reach of working families. Our research uncovered a range of promising approaches for generating revenue for this purpose, including leveraging additional federal funds through the 4 percent Low-Income Housing Tax Credit program, supporting the issuance of general obligation bonds for affordable housing, and mobilizing employers to help their workers find affordable homes.

Strategy 5.

Preserve and Recycle Resources for Affordable Homes

Given the limited availability of public funds for affordable homes, it is essential that funding be used in a cost-effective manner designed to produce the maximum benefits for the minimum cost. Providing funds to help preserve existing affordable homes that might otherwise be lost to deterioration or gentrification is one particularly cost-effective strategy. Other cost-effective strategies include providing down payment assistance in the form of loans rather than grants, and the use of “shared equity” strategies that help preserve the buying power of government subsidies for homeownership in markets with rapidly appreciating home prices.

Strategy 6.

Empower Residents to Purchase and Retain Market-Rate Homes

As a group, the policies considered above focus overwhelmingly on expanding the supply of homes. But there is also a *demand* side to the equation. To the extent that families have adequate incomes and credit to afford private-market homes, the need for government intervention to provide affordable homes is greatly reduced. One demand-side strategy within the domain of housing policy is to invest in homeowner education and counseling that help families navigate the complicated home-buying process and improve their credit and debt profile so they can access more private-market mortgage capital at reasonable rates. Given the rise of foreclosures in certain markets, it is important to marry this “pre-purchase” strategy with a “post-purchase” strategy designed to help existing homeowners retain their homeownership status in the face of confusing mortgage products, rising interest rates and rising property taxes.

Expand the Availability of Sites for the Development of Affordable Homes

1. Make **Publicly Owned Land** Available for Affordable Homes

In recent years, a growing number of communities have identified publicly owned land that is either vacant or underutilized and facilitated the development or redevelopment of the properties for affordable homes.

Communities have implemented this solution in a variety of ways. For example, some communities have adopted ordinances specifying that publicly owned land identified as “surplus” must be made available for the development of affordable homes. Other communities have established formal or informal task forces to identify vacant or underutilized public land that can be developed for affordable homes. Examples of underutilized land include parking lots or low-density structures in areas zoned for high-density development. There also may be opportunities to build homes adjacent to or above public buildings, such as by adding on additional levels to the top of a public structure.

Effective task forces generally include representatives from public agencies that control land, such as school systems, hospitals, housing authorities, and police and fire departments. Depending on the local market, owners of large tracts of public land, including courts, prisons, railroads, the military and even airports, also can contribute to efforts to locate sites for the development of affordable homes.

When implementing this solution, jurisdictions generally seek to establish a fair and transparent public process to identify and make sites available for development that will include homes affordable to working families.



Greenbrier Heights; Woodinville, Wash.

Solutions In Action

Woodinville, Wash. In 2004, the Greenbrier Heights development and community center were completed on land that had been identified as surplus and made available for affordable homes by the King County government. Once slated to become a solid waste transfer station, the land is now the site of 170 affordable homes targeted to families with a range of incomes, and includes a mix of rental properties and owner-occupied homes. The development is one of the first to be completed on land identified through an innovative King County ordinance (Ordinance 12394) that requires parcels deemed surplus by the county and suitable for homes to be sold or leased for affordable homes.⁴

Other examples include the use of vacant land in Camarillo, Calif., which was formerly part of the state mental hospital, to develop homes affordable to faculty and staff of California State University–Channel Islands; the adaptive reuse of South Rossville Elementary School in Rossville, Ga., for affordable homes for seniors; and the redevelopment of the former Stapleton airport site in Denver, Colo., into a mixed-use, sustainable, master-planned community with at least 10 percent of the homes affordable to working families.

Expand the Availability of Sites for the Development of Affordable Homes

2. Facilitate the **Reuse of** Abandoned, Vacant and Tax-Delinquent **Properties**

Many communities have found sites for affordable homes by acquiring properties that are undeveloped, have vacant and/or deteriorating structures, or whose owners are seriously delinquent on their taxes. These communities acquired the properties either through purchase or tax foreclosure, and reused them for the development of affordable homes.

One successful approach communities have used to reclaim multiple land parcels is the establishment of a “land bank” to manage the planning, acquisition, disposition and financing process. A land bank is an institution chartered by state law to convert vacant, abandoned or tax-delinquent properties into productive use. Among other advantages, land banks can help resolve any confusion regarding ownership of properties, which can make it difficult to market the properties with

clear title. Land banks also can provide a powerful framework for comprehensive community redevelopment by empowering a single entity to not only reclaim vacant and abandoned land, but also integrate that land into an overall plan for redevelopment in the community.

Whether communities choose to create a formal land bank or pursue tax foreclosures without one, many have found it useful to seek state legislation that streamlines the process for foreclosing on tax liens and ensures a reasonable share of tax-foreclosed properties remain reserved for affordable homes.



Affordable Home; Flint, Mich.

Solutions In Action

Flint, Mich. Through a combination of tax foreclosure reforms, the Michigan Land Bank Fast Track Act and amendments to the Brownfield Redevelopment Financing Act, the Genesee County Land Bank obtained broad and flexible authority to acquire, manage, clear, demolish, rehabilitate and develop tax-foreclosed land. Using these powers, the land bank acquired 3,400 parcels, cleaned thousands of empty lots and demolished hundreds of abandoned homes in just three years. The land bank has helped to preserve or develop affordable homes by, among other things, transferring at least 130 foreclosed, tenant-occupied properties to nonprofit housing organizations and assembling hundreds of empty lots for city development projects, as well as local nonprofit and community organization projects. One example of an affordable development built on land made available through the land bank is the Flint Gateway Initiative, in which Mission of Peace Community Development Corporation, a faith-based, nonprofit organization, sponsored the construction of eight new affordable homes.

Other examples include land banks established in St. Louis, Mo.; Cleveland, Ohio; Louisville, Ky.; and Atlanta, Ga. New York, N.Y., generated an inventory of more than 100,000 tax-delinquent and abandoned homes that served for many years as the cornerstone of a successful strategy for increasing the availability of affordable homes and revitalizing neighborhoods city-wide.

Expand the Availability of Sites for the Development of Affordable Homes

3. Expand the Supply of Homes through **Rezoning**s

Most communities have adopted some form of zoning policy that specifies how different areas of the community may be developed. For example, many communities have zoning maps that divide the community into residential, commercial and, in some areas, manufacturing and agricultural zones. These zoning laws also specify how many homes may be developed per acre within different residential zones. By limiting the amount of land available for residential development and the number of homes that may be developed within residential zones, zoning policies can constrain the supply of homes available for working families.

By revising zoning policies to make new land available for residential development, some localities have successfully increased the supply of land for the development of new homes. Localities also have expanded the supply of new

homes by increasing, in appropriate locations, the allowable densities (i.e., the number of homes that may be developed per acre) within residential areas.

To contribute meaningfully to the supply of homes affordable to working families, such rezonings generally need to be structured in one of two ways. Either they need to be implemented on a very broad scale, so that they increase the overall supply of homes sufficiently to drive down prices for everyone, or they need to be accompanied by a policy that specifically requires that a portion of newly developed homes be affordable. An example of such a policy is inclusionary zoning (see page 11 for more information).



MetroWest; Fairfax County, Va.

Solutions In Action

Fairfax County, Va. Fairfax County recently approved a plan to rezone an area near a Vienna, Va., mass transit stop that will increase density substantially. The new MetroWest development will be built on land formerly occupied by an older, low-density subdivision of 65 homes and five acres that had been used previously for surface parking. The redevelopment plan will provide approximately 2,250 condominiums, apartments and townhouses; up to 300,000 square feet of office space; and, up to 190,000 square feet of retail space. During negotiations over the proposed MetroWest development, Fairfax County secured a promise from Pulte Homes, the developer, that approximately 5 percent of the homes would be affordable – almost double the number required under current Fairfax County provisions for developments of this density.

Another recent example is the comprehensive rezoning of Greenpoint-Williamsburg in New York, N.Y., which will help turn a vacant and underutilized stretch of the Brooklyn waterfront into more than 10,000 homes – including 3,500 affordable homes – and create more than 50 acres of parks and other open space.

4. Ensure that Zoning Policies Support a **Diversity of Housing Types**

Many communities have zoning policies that either directly restrict, or have the effect of restricting, the construction of multifamily homes, manufactured homes or accessory dwelling units. By constraining the availability of these housing types, which often cost less to construct than detached single-family homes, these policies make homes less affordable to working families.

In communities with these types of restrictions, revising zoning and permitting policies to allow a greater range of housing types would increase the availability of affordable homes. In addition to removing outright bans, communities should examine other barriers, such as overly burdensome parking requirements, which may be obstacles to the construction of affordable homes.

In recent years, tremendous advances have been made in the design of multifamily homes and the quality of manufactured homes. Today's multifamily homes boast award-winning designs while reducing per-unit land costs by enabling more homes to be built on a single site. Many of the higher-end manufactured homes are indistinguishable from manually-framed homes, yet cost thousands of dollars less to construct. Both housing types, when well-designed and well-built, provide quality homes that easily blend into existing neighborhoods.

Finally, accessory dwellings – smaller homes that are built next to or as a part of principal homes – can be an excellent way to provide affordable homes for family members or caretakers. Accessory dwellings also can provide opportunities to expand the supply of rental homes while generating income for the home's owners.



Auburn Court; Cambridge, Mass.

Solutions In Action

Cambridge, Mass. Auburn Court is an attractive mixed-income development that provides 137 homes in a multifamily setting spread along three residential blocks of garden courtyards. Established as part of the larger University Park development on land assembled by the Massachusetts Institute of Technology, Auburn Court consists of a mix of one-, two- and three-bedroom homes, flats and duplexes. Most buildings in the development are three stories, but several rise up to six stories to frame the entrance to University Park.

Other examples include Oakland Community Housing, Inc., in Oakland, Calif., which is using manufactured homes to provide affordable homes for working families in an infill setting, and Santa Rosa, Calif., and Mercer Island, Wash., which use accessory dwelling units to expand the supply of affordable homes.⁵

5. Adopt **Expedited Permitting** and Review Policies

Many communities have time-consuming processes for obtaining building permits, zoning variances and other approvals. Because multiple approvals must be secured from multiple agencies, they can take years to secure, introducing lengthy delays into the development process. While each of these approval processes generally has a reasonable purpose and the delays often are the understandable byproduct of staffing shortfalls, these delays can significantly increase the cost of homes.

By adopting expedited permitting and review processes for developments that qualify as “affordable,” communities can reduce the costs of producing affordable homes and also provide a strong incentive for developers to build more affordable units.

One solution is to comprehensively review the various approvals and permitting processes to determine how they can be streamlined without compromising public safety or quality of life. In some communities, the current permitting and zoning waiver processes may never have been examined in a holistic fashion with an eye to improving efficiency, and cutting time and costs. The outcome of this review may be a more streamlined system for all permit and zoning requests, or a specific set of expedited procedures for developments that include affordable homes, or both. In addition, the time necessary for reviewing and approving new developments can be significantly expedited by clearly defining, in advance, the required criteria for various approvals — such as precisely stating the requirements for permitting an increase in allowable density — rather than leaving everything up to a subjective, case-by-case approval process.



Villas on Sixth; Austin, Tex.

Solutions In Action

Austin, Tex. Austin’s S.M.A.R.T. Housing Initiative is an innovative self-funded program that uses expedited reviews and fee waivers to stimulate the production of affordable homes in neighborhoods within the city limits. Residences built under this program are intended to be safe, mixed-income, accessible, reasonably priced and transit oriented (thus the S.M.A.R.T. acronym), and also must meet Austin’s “green” building standards. Eligible projects include single-lot and infill development as well as new subdivisions. Developers of projects meeting S.M.A.R.T. Housing certification standards receive an expedited review that averages about half the time of conventional projects. They also may receive waivers of the city’s capital recovery fee, development review and inspection fee, and certain construction inspection fees. Typical cost savings for homes produced under the S.M.A.R.T. Housing Initiative are \$600 per unit of multifamily homes and \$2,000 per single-family home from fee waivers, as well as reduced carrying costs from the expedited review process.

Another example is Chapter 40B in Massachusetts, which is a state statute that streamlines the approval of developments that include affordable homes.

6. Revise Impact Fee Structures

Many communities charge fees to developers — known as “impact fees” — in order to cover the estimated costs of expanding infrastructure and public services to meet the needs of newly added area residents. These fees can be an important source of revenue to help communities accommodate new growth. Under certain circumstances, however, working families may be forced to bear more than their fair share of these costs. It is important to ensure that impact fees are both reasonable and fairly allocated.

Some communities have addressed this issue by moving from fixed impact fees, assigned on a per-unit basis, to fees that are proportionate to the square footage of the home or condo unit. By charging smaller fees on smaller homes, this policy enhances the affordability of modest-sized homes targeted to families with moderate incomes. Such a policy also is more equitable because

it acknowledges that smaller homes tend to have a smaller impact on a community’s infrastructure needs.

Other communities waive impact fees for homes targeted to families within a certain income bracket or vary the amount of the impact fees within a jurisdiction based on the level of public services already available in that particular location. The latter approach can result in substantially lower fees in certain areas — such as infill areas — and facilitate the development of homes affordable to working families.



Ironwood; Alachua County, Fla.

Solutions In Action

Alachua County, Fla. Based on a careful assessment of the county’s need for affordable homes, as well as the expected infrastructure costs associated with new development, Alachua County adopted an impact fee schedule that sets impact fees for residential development based on square footage, rather than on the type of dwelling (i.e., single-family detached, townhouse, apartment, etc.). The result is that smaller homes tend to be charged lower impact fees, making them more affordable. The county also has allocated funds for forgivable second mortgages to cover the costs of impact fees for households with incomes less than 80 percent of the area median income when buyers purchase a home below a specified price.

Other examples include Albuquerque, N.M., Lincoln, Neb., and Martin County, Fla., which waive impact fees for households below a certain income level. Phoenix, Ariz., varies the size of impact fees by area based on the level of existing services and, in some areas, waives most fees.⁶

7. Adopt **Building Codes** that Facilitate Rehabilitation of Existing Homes

In many communities, older homes undergoing moderate levels of rehabilitation must also include additional renovations to bring them into compliance with current building standards. These requirements add significantly to the cost of rehabilitation and create a strong disincentive for updating existing structures. Due to the costs involved, these older homes, which are likely to be more affordable than newer homes, often fall into disrepair instead of being rehabilitated. As a result, these homes cease to offer quality housing opportunities or end up being demolished and replaced by larger and more expensive homes that are out of reach of working families.

To remedy this problem, a growing number of communities have adopted special building codes designed to facilitate the moderate rehabilitation of existing structures, while maintaining safety. These alternative building codes tailor

the level of regulation to the scope of rehabilitation, so more extensive rehabilitation requires stricter compliance with modern building codes, while less extensive rehabilitation triggers only those modern codes that are associated with ensuring residents' safety.

In addition to adopting special rehabilitation codes, many communities have successfully encouraged the rehabilitation of older structures by adopting a more facilitative approach to building code enforcement. In these communities, building inspectors work with owners and developers to implement safe, reasonable solutions that make the projects feasible. This flexible, accommodating approach is designed to achieve the community goals of safety and ongoing affordability, rather than penalizing building owners for noncompliance.



**Bramhall Avenue Apartments;
Jersey City, N.J.**

Solutions In Action

New Jersey. In 1997, New Jersey adopted a new building subcode designed to facilitate rehabilitation of older homes. The new rules provide a sliding scale for determining when buildings must be updated to current building codes. The more extensive the rehabilitation in terms of structural, mechanical, electrical, plumbing or fire protection work, the greater the requirements to update to current building codes. The cost savings have been significant. For example, the new subcode reduced the costs of rehabilitating the Bramhall Avenue Apartments in Jersey City by \$1 million. The new subcode also appears to have led to a significant increase in the number of small rehabilitation projects being undertaken.⁷

Other examples include the state codes in Maryland and North Carolina, and the International Existing Building Code issued in 2003, which is a new model building code for rehabilitation that jurisdictions can elect to adopt.

8. Utilize **Tax Increment Financing** to Fund Affordable Homes

Tax increment financing is an increasingly popular approach to raise revenue for community redevelopment, including the production of affordable homes. This tool allows communities to pay for redevelopment projects, such as new roads, schools and homes, with the increased property tax revenues that these projects are expected to produce.

Under this approach, a community designates a tax increment district and sets a baseline expectation for future tax revenues in the designated area. Incremental revenues above this baseline are captured as revenue that can be used to fund projects in the district. Some jurisdictions borrow against expected tax increment revenues, allowing the future tax revenues to pay for the initial investment that produces them.

In many localities, there is a high degree of competition for tax increment revenues because multiple projects are competing for the same dollars. It is important, therefore, to designate some portion of this revenue for affordable homes early in the legislative process. One approach is to ensure that the initial legislation authorizing tax increment financing specifies that a minimum percentage of tax increment revenue must be used to construct affordable homes.



El Paseo; San Jose, Calif.

Solutions In Action

California. Under California's redevelopment law, local redevelopment agencies are required to set aside 20 percent of revenues from tax increment districts for a separate low- and moderate-income housing fund to address the state's need for affordable homes. These revenues have made redevelopment agencies one of the biggest sources of funding for affordable homes in California. In the 2004-2005 fiscal year, for example, California redevelopment agencies deposited more than \$1.2 billion into low- and moderate-income housing funds and helped some 20,493 households secure affordable homes.⁸

Other examples include Maine, which has specifically authorized tax increment financing districts to fund affordable homes, and Chicago, Ill., which has made widespread use of tax increment financing to fund affordable homes.

9. Stimulate Construction and Rehabilitation through **Tax Abatements**

Tax abatements are similar to tax increment financing strategies in that they involve voluntarily relinquishing expected future tax revenues for a specified period of time to stimulate a public benefit. The principal difference is that tax abatements are much more focused, providing a specific tax benefit for a specific activity undertaken by the taxpayer. Tax abatements also can be applied city- or countywide, rather than simply in a particular district. In the housing sector, tax abatements most often are used as an incentive for the construction or rehabilitation of rental homes.

Some jurisdictions encourage rehabilitation of older affordable properties by offering a 10-year tax abatement to property owners who agree to make improvements to their properties. The abatement is applied by either freezing the property's assessed value at the current level for the 10-year period, or by taxing the property at a lower rate during that time. Similar incentives have been used to stimulate new construction.

Many jurisdictions require that the units that are developed as a result of tax abatement policies be rented at affordable rates or, if sold, be sold at an affordable price.



Cooper Street Townhomes; Portland, Ore.

Solutions In Action

Portland, Ore. Portland has a range of tax abatement programs designed to promote increased development near public transit, rehabilitation of rental homes, the construction or rehabilitation of owner-occupied homes in certain “opportunity areas,” and nonprofit ownership of affordable rental homes. As of fiscal year 2004-2005, some 12,725 homes were receiving one of these abatements, contributing significantly to the city’s objectives for affordable homes and community development.⁹

Another example is Chicago, Ill., which has a special property tax classification designed to stimulate the rehabilitation of affordable rental homes.

10. Create or Expand Dedicated Housing Trust Funds

Housing trust funds are flexible vehicles for financing affordable homes supported by dedicated funding sources, such as real estate transfer taxes or recording fees. Because of their flexibility, housing trust funds can be invaluable tools that complement more restrictive funding sources. As of July 2005, there were 293 city-operated housing trust funds, 76 county-operated housing trust funds and 43 separate state-operated housing trust funds administered in 37 states.¹⁰

In some cases, housing trust funds lack a dedicated funding source and, instead, are funded through either one-time or annual appropriations by the legislature or city council. While discretionary appropriations are not as reliable as dedicated funding sources, trust funds financed in this manner still can be important tools for increasing the availability of affordable homes. They also can lay the groundwork for future dedicated funding.



Page Commons; Flagstaff, Ariz.

Solutions In Action

Arizona. The Arizona Housing Trust Fund was established in 1988 and is funded by 55 percent of the revenues from “unclaimed property,” such as inactive bank accounts, bank deposits, lay-away fees and unclaimed refunds from lending institutions, insurance companies and commercial retail operations. To date, this funding stream has provided 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. The trust fund also supports affordable homes on tribal lands.¹¹

Other examples include trust funds, such as those in Washington, D.C., and Ohio, that started out without a dedicated funding source, but later secured one.

11. Establish **Inclusionary Zoning** Requirements or Incentives

Generally, inclusionary zoning involves a requirement or an incentive for developers to include a modest percentage of affordable units within newly created developments.

Well-designed inclusionary zoning policies can benefit the community, working families and developers alike. The community and families benefit through the production of a significant number of affordable homes. Developers and property owners benefit through incentives that allow them to build at a higher density than otherwise permitted. Some inclusionary zoning policies provide other incentives as well, such as an opportunity to access public subsidies for the development of affordable homes.

In designing inclusionary zoning policies, communities have found it useful to bring representatives from the development community together with advocates in favor

of affordable homes to consider how to structure the policies to best meet the needs of the community. In particular, it is important to develop inclusionary zoning policies that include realistic affordability levels, and provide density bonuses and other incentives that are well-tailored to the specific conditions of the community. Another important consideration is to ensure that the affordable homes developed through the policy remain affordable for long periods of time. One approach to ensuring long-term affordability is to utilize a shared equity mechanism such as a community land trust or resale restriction. (See page 20 for more information.)



Corona Ranch; Petaluma, Calif.

Solutions In Action

Petaluma, Calif. Petaluma adopted a General Plan Policy in 1984 requiring that at least 15 percent of the new homes in developments of more than five units be affordable for low- or moderate-income families. As an alternative to the inclusion of affordable homes within the new development, developers have the option of providing or funding affordable homes on another site. Between 1999 and 2006, Petaluma’s inclusionary zoning policy generated 587 affordable homes – including both rental and homeownership opportunities – in conjunction with the development of 1,727 market-rate homes.

Other examples include inclusionary zoning programs in Montgomery County, Md., and Fairfax County, Va.

12. Use **Cross-Subsidies** to Support Mixed-Income Communities

In strong housing markets, nonprofit or mission-driven for-profit developers who build affordable homes can use profits from the sale or rental of market-rate homes to subsidize the costs of affordable homes. For example, some developers have used the profits from market-rate condominium units to subsidize for-sale condominium units or rental units in the same development that are affordable to working families.

This strategy also has been used to create mixed-income developments comprised entirely of rental homes. In recent years, however, rising land costs have made it more expensive to develop market-rate rental units, leaving little profit available to subsidize the affordable units. To use cross-subsidies successfully in an all-rental context, communities may need to combine cross-subsidies with other approaches — such as making publicly owned land available for little or no cost, or increasing the allowable density.



Timberlawn Crescent; North Bethesda, Md.

Solutions In Action

North Bethesda, Md. Timberlawn Crescent is a mixed-income development providing 107 rental townhomes, as well as a community center, day care and outdoor recreation areas. Developed by the Housing Opportunities Commission of Montgomery County in 1991, Timberlawn Crescent uses a cross-subsidy from the market-rate units to reduce the rents on more affordable units within the development. A strong rental market, combined with low land acquisition costs, tax-exempt financing, a property tax exemption and a state subsidy for the most affordable units, has helped make the development successful.¹²

13. Expand Use of the **4 percent Low-Income Housing Tax Credit**

The largest source of federal funding for new development or substantial rehabilitation of affordable rental homes is the federal Low-Income Housing Tax Credit. It comes in two forms: the larger and better-known credit is equal to approximately 9 percent of the development costs of rental homes (not including land) for each of 10 years; the lesser-known credit is worth 4 percent of these costs for 10 years. Both credits are allocated by state housing finance agencies.

While a state may issue only a limited number of 9 percent credits, there is no limit to the number of 4 percent credits a state may issue in conjunction with projects financed with tax-exempt multifamily bonds. By working to increase utilization of 4 percent credits, states and localities can expand substantially the amount of federal resources available for affordable homes.

To successfully utilize this strategy, states must ensure that they have an adequate supply of tax-exempt bond authority available to fund rental housing.¹³ In addition, because 4 percent tax credits alone are not enough to finance fully the development of affordable homes in many communities, additional financing often must be found. While securing those matching funds can be challenging, the consequence of not doing so is to relinquish a substantial amount of federal funding for affordable homes. For example, in one renovation of an older, federally insured complex, the equity from 4 percent tax credits contributed \$3.1 million toward total project costs of \$8.2 million.

In some states, 4 percent credits are used primarily for rehabilitation of older rental homes and the preservation of subsidized rental developments – activities that tend to have lower development costs than new construction.



**Kunzelmann-Esser Loft Apartments;
Milwaukee, Wis.**

Solutions In Action

Milwaukee, Wis. The Kunzelmann-Esser Loft Apartments provide 67 loft apartment/studios for artists in the eight-story former home of Kunzelmann-Esser Furniture Co., a century-old landmark on Mitchell Street. The property was renovated by Gorman and Company in 2003 using a mix of the 4 percent Low-Income Housing Tax Credit, historic tax credits, federal HOME funds and financing from the Wisconsin Housing and Economic Development Authority.

14. Provide **Pre-Development** and **Acquisition Financing**

State and local lending programs that provide financing for pre-development expenses or acquisition of properties can be useful tools for helping nonprofit organizations produce affordable homes.

Pre-development expenses include a variety of costs related to determining the feasibility of a particular project, such as the costs of preliminary financial applications, legal fees, architectural fees, engineering fees and costs associated with obtaining control of the site. While larger nonprofit and for-profit organizations often have access to financing that covers these expenses, these costs can be a major obstacle for

smaller, community-based nonprofit organizations. Indeed, when competing for larger properties in desirable locations, even larger nonprofits and for-profits interested in building affordable homes may have difficulty marshalling the funds for acquisition in a timely and cost-competitive manner.

Some states and localities have addressed this problem by making funding for pre-development and acquisition costs available to qualifying organizations. Other communities have found ways to leverage private financing to establish acquisition funds that help larger nonprofits compete for larger properties.



Via Roble; Escondido, Calif.

Solutions In Action

California. Through the Housing Enabled by Local Partnerships (HELP) Program, the California State Housing Finance Agency provides local governments with an unsecured 10-year loan, at a 3.5 percent interest rate, which they can use to meet locally determined priorities for affordable homes. Established in 1998, the HELP Program has provided about \$160 million in funding to support the development of more than 19,000 affordable rental and owner-occupied homes statewide. One example is a \$1.85 million award to the city of Escondido to assist with site acquisition, development and rehabilitation of the Via Roble and Orange Place Apartments. In 2006, California added a second, complementary, short-term loan program – the Residential Development Loan Program – to focus more specifically on site acquisition and pre-development expenses related to the development of owner-occupied homes in infill settings.

Another example is the \$230 million New York Acquisition Fund, which used \$8 million in city funds, combined with \$32 million in loan guarantees from private philanthropic organizations, to leverage more than \$192 million in private financing in order to facilitate the acquisition of land to create or preserve thousands of affordable homes.

15. Support **Housing Bond Issues**

General obligation bonds are bonds that state or local governments issue to raise funds for an activity the jurisdiction wishes to support, such as affordable homes. The bonds are repaid through tax levies or appropriations by the legislature. While challenging to secure, general obligation bonds (and other types of publicly issued bonds) can provide an indispensable form of flexible funding for the development of affordable homes.

In many jurisdictions, a special vote of the electorate is needed to authorize the issuance of such bonds. In some cases, a ballot measure for the issuance of general obligation bonds also will authorize a specific tax to pay for the bonds.



Villa Madera Family Housing; Oxnard, Calif.

Solutions in Action

California. In November 2002, California voters approved Proposition 46, which authorized the issuance of \$2.1 billion in bonds for affordable housing activities statewide. As of July 1, 2006, the state had awarded over \$1.5 billion of these funds through a variety of housing programs, contributing to the development or preservation of more than 97,100 rental and owner-occupied homes and shelter spaces. The project pictured – Villa Madera Family Housing in Oxnard, Calif. – consists of 72 units of affordable multifamily homes, along with a 3,655 square foot community room and an outdoor play area. It was funded in part by California’s Multifamily Housing Program, which was supported by funds raised through Proposition 46.

In November 2006, California voters approved a still larger bond issue to support affordable homes – this time totaling \$2.85 billion.

Other examples include Phoenix, Ariz., where, in 2001, voters authorized \$33.7 million in general obligation bonds to develop affordable rental homes, and Miami-Dade County, Fla., where voters authorized the Building Better Communities General Obligation Bond program in 2004, which allows up to \$195 million of bond proceeds to be used for affordable homes.

16. Ensure that **Housing Finance Agency Reserves** Are Used for Affordable Homes

Every state has a housing finance agency to support the state's goals for developing affordable homes. Among other responsibilities, housing finance agencies typically issue bonds that raise funds for affordable homes and administer the federal Low-Income Housing Tax Credit. In addition to these state agencies, a number of municipalities have established local housing finance agencies that play similar roles; however, the federal Low-Income Housing Tax Credit generally is administered only at the state level.

In the course of their operations, housing finance agencies generate revenue to support ongoing program operations and to build reserves that improve their financial strength and bond rating. The revenue comes from fees they charge on outstanding bonds, as well as from the spreads between their cost of funds and the rates they charge borrowers. This ability of housing

finance agencies to generate revenue is an important asset that helps sustain their ongoing operations.

Unfortunately, in 2004, 13 state housing finance agencies reported that their fiscal reserves were tapped by the state for activities unrelated to the agencies' programs.¹⁴

States and localities should insist that housing finance agency reserves be used solely for purposes related to affordable homes. Policy-makers also should work collaboratively with housing finance agencies in their states and localities to determine whether some portion of the agencies' reserves or program revenues can support the jurisdictions' overall plans for increasing the availability of homes affordable to working families.



University Macombs; New York, N.Y.

Solutions in Action

New York, N.Y. In 2004, New York City announced a 10-year, \$7.5 billion plan to address the city's need for affordable homes. The multifaceted plan calls for the preservation of 73,000 affordable homes to benefit 220,000 people, and the development of an additional 92,000 new affordable homes to benefit another 280,000 people. Among other sources of funding, the plan utilizes \$540 million in funding from the reserves of the New York City Housing Development Corporation, a local housing finance agency in New York City.¹⁵

17. Leverage **Employers' Commitment** to Affordable Homes for Workers

A growing number of employers in strong housing markets are worried that the high cost of homes will threaten their ability to attract and retain qualified workers. In some cases, this has led employers to provide employee benefit programs to offset the costs of homes or to otherwise assist employees in finding affordable homes. In other cases, employers have supported more general efforts to increase the availability of affordable homes in the community by funding the development of affordable homes, advocating for the appropriation of funds for affordable homes at the state or local levels, or supporting applications for zoning variances and other necessary approvals to facilitate the construction of affordable homes.

Communities have adopted a number of strategies to engage employers in leading or assisting efforts to increase the availability of affordable homes. Under one successful approach, states give employers who invest in affordable homes a credit against their state income taxes, providing a powerful incentive for employers to make this investment. Another successful approach has been to enlist a local nonprofit organization to manage employee benefit programs related to affordable homes. Under this approach, communities assist the nonprofit to build its capacity to handle these programs for multiple employers.



Plainview Homes; Rochester, Minn.

Solutions in Action

Rochester, Minn. Due to low vacancy rates and rising home prices, Rochester was rapidly becoming unaffordable. Recognizing the need for more affordable homes for its 26,000 employees and other community residents, the Mayo Clinic pledged \$7 million toward a nationwide affordable homes effort. Together with \$3 million in contributions from other employers, \$1 million from local foundations, \$3 million from the Minnesota Housing Finance Agency and \$5.5 million in financing from the Greater Minnesota Housing Fund, the project raised \$19.5 million to support its ambitious goals. By year end 2006, the effort produced 486 affordable single-family homes and 313 affordable multifamily homes. Local leadership by the city of Rochester and the Rochester Area Foundation played important roles in the project.

Another example is Illinois, which provides employers a state tax credit equal to 50 percent of the employer's qualified investments into affordable homes.¹⁶ Practitioners report that the credit has been very effective in stimulating employers' investments in affordable homes for their workers.

18. Preserve **Affordable Rental Homes**

Over the past decade, there has been a growing awareness of the importance of preserving the existing inventory of affordable rental homes. Especially in cities with an older, high-quality rental stock, preservation can be a highly cost-effective strategy for ensuring the availability of affordable homes for working families.

In many cases, preservation efforts have focused on ensuring the ongoing affordability of developments with expiring federal or state subsidies. In other cases, efforts also are underway to preserve the ongoing affordability of unsubsidized developments that provide quality, affordable homes. Every year, a portion of this unsubsidized but affordable inventory is lost because of either inadequate maintenance or substantial upgrades that price the homes out of reach.

States and localities have adopted a number of successful strategies for preserving affordable rental homes in danger of losing their federal subsidies. For example, some states have successfully utilized the 4 percent Low-Income Housing Tax Credit as a preservation tool. Other states give priority to preservation projects in competition for 9 percent tax credits.

To preserve the affordability of unsubsidized rental homes, several cities have worked with nonprofit lending institutions to help smaller property owners access affordable capital to modernize their properties and provide capital for larger rehabilitation projects that help maintain the supply of affordable rental homes. Some cities also have established incentives, such as abatements of property taxes, to encourage owners of these properties to reinvest in their properties and maintain ongoing affordability.



Rehabilitated Apartments; New York, N.Y.

Solutions in Action

New York, N.Y. The Community Preservation Corporation (CPC) is a nonprofit organization, sponsored by more than 80 prominent banks and insurance companies, which provides loans to support the construction and rehabilitation of multifamily homes — both for rent and for sale. CPC functions as a one-stop shop for owners and developers seeking to build or rehabilitate properties, providing both technical assistance and attractively priced financing. In its 32 years, CPC has financed more than 117,000 new or rehabilitated units, providing or facilitating some \$5.3 billion in investment. CPC works closely with New York City's Housing and Preservation Department and Housing Development Corporation (a local housing finance agency) to advance their shared goals of stronger communities and more affordable homes.

19. Recycle **Down Payment Assistance**

One common strategy for helping working families purchase homes is to provide funds for down payment or closing costs. State and local governments typically operate these programs using funds they receive from the U.S. Department of Housing and Urban Development. Some communities supplement federal funds with state or local funds to offer greater assistance that covers high purchase costs and reaches a wider range of incomes.

In designing down payment assistance programs, jurisdictions must decide whether to offer the assistance as a loan, which must be repaid, or as a grant, which does not require repayment. To prevent homebuyers from immediately selling their properties, thus pocketing the down payment assistance as profit, many down payment assistance grants are structured as a “forgivable loan.” Under this structure, the loan is forgiven over a certain period of time, such as five or 10 years.

While often preferable to outright grants, forgivable loans are essentially similar to grants because they are a permanent transfer of funds from the government to the home purchaser.

To protect the public investment and serve more families, some jurisdictions have chosen to provide down payment assistance as a “silent second mortgage,” rather than as a grant or forgivable loan. Under this approach, home purchasers receive a loan that must be repaid when they resell the home or, in some cases, when they refinance. Until that point, however, they do not need to make any payments on the second mortgage. As a result, a silent second mortgage is just as effective as a grant in making homeownership affordable, but has the advantage of being able to be recycled to help other families.



Affordable Home; Tucson, Ariz.

Solutions in Action

Tucson, Ariz. Tucson provides down payment assistance in the form of a silent second mortgage with 2 percent simple interest. (The interest is forgiven if a family stays in a home for 20 years.) Since the program’s inception in 1994, Tucson has invested about \$9.5 million and generated approximately \$4 million in program revenue – mostly through repayments of silent second mortgages. From 2002 until May 2006, for example, 213 families repaid their second mortgages, returning program funds to help many more families become homeowners.

20. Use **Shared Equity Mechanisms** to Create Mixed-Income Communities

In some communities, policy-makers have grown concerned that millions of dollars invested in fostering homeownership opportunities for first-time homebuyers may have provided only temporary relief because of the continuing rise in home prices. Homes that were once made affordable through subsidies or inclusionary zoning policies have become out of reach of working families upon resale. Sharp increases in home prices also have jeopardized efforts to preserve or foster communities with a mix of incomes.

A growing number of states and localities have addressed this problem by adopting “shared equity” approaches that balance asset accumulation by home purchasers with ongoing affordability. Under these approaches, families that benefit from large public subsidies to purchase a home agree to share any

home price appreciation that occurs with the entity that provided the subsidy. Well-designed shared equity approaches allow working families to purchase a home and generate a healthy return on their investment. At the same time, they ensure the public’s investment keeps pace with the market, so there is no reduction in the number of families that can be assisted over time.

Among other shared equity approaches that have been used successfully are community land trusts, limited equity cooperatives or condominiums, and resale-restricted homes.



Affordable Homes; Burlington, Vt.

Solutions in Action

Burlington, Vt. The Champlain Housing Trust creates homeownership opportunities that remain permanently affordable to working families. The Trust uses a shared equity model in which a family receives a grant to reduce the cost of purchasing a home. In exchange for the grant, the family agrees to share any home price appreciation with the Trust, which the Trust uses to keep the home affordable to the next qualifying home purchaser. An evaluation of this model found that the Trust was successful in preserving long-term affordability, while still providing home purchasers with an annualized return of 17 percent on their initial investment. A majority of families that resold homes originally purchased through the Trust went on to purchase homes at market rate.¹⁷

21. Expand **Homeownership Education** and Counseling

In recent years, the home-buying process has grown more and more complicated, with prospective purchasers being offered a wide array of different mortgage products, some of which pose significant risks to the sustainability of their homeownership.

To reduce the risk that today's complicated home purchasing market will lead to increased foreclosures, many communities have invested in pre-purchase homeownership education and counseling to help prospective borrowers. Homeownership education and counseling help families make an informed decision about whether and when they are ready to purchase a home. They also can help families learn how to improve their credit scores so they can qualify for more attractively priced mortgage products, understand how

to spot and avoid predatory lending practices, and qualify for various down payment assistance programs. By helping families qualify for safer, lower-priced mortgage products, a small investment in homeownership education and counseling can yield a large return in increased borrowing power.

Homeownership education and counseling programs are common in most communities, but many need more resources to expand their reach.



Montana Homeownership Network; Montana

Solutions in Action

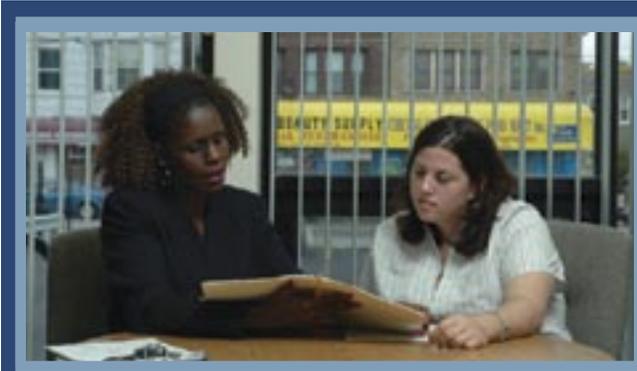
Montana. Between 1998 and 2006, the Montana Homeownership Network created 3,159 homebuyers and graduated more than 10,000 families from homebuyer education. With 23 service delivery partners spread across the state, the network has served families in 201 Montana communities. Through the Montana Board of Housing, the state has supported the Network's efforts by providing \$65 million in set-aside funds for first and second mortgages to assist home purchasers counseled by the Network, as well as \$500,000 in federal HOME funds for deferred mortgages to be used for down payment and closing costs.¹⁸ The Network also has developed, with the assistance of the Montana Board of Housing, a mortgage-backed security bond that is used to fund amortized down payment assistance loans.

22. Help Moderate-Income Homeowners **Avoid Foreclosure** and Equity Loss

Increasingly important complements to pre-purchase homeownership education and counseling are post-purchase counseling and foreclosure prevention programs.

Central to such programs is the early referral of families with mortgage defaults to homeownership counseling agencies, which help families understand their options for getting back on track. Some programs also promote toll-free hotlines that families can call if they run into

trouble. In addition, post-purchase programs conduct outreach to educate families about the availability of help if they are in danger of foreclosure and the dangers of predatory lending schemes that offer refinancing on highly unfavorable terms. Other programs encourage first-time homeowners to enroll in post-purchase classes to help them fully understand their responsibilities as homeowners as well as the various pitfalls that can lead to the loss of their homes.



Neighborhood Housing Services of Chicago; Chicago, Ill.

Solutions in Action

Chicago, Ill. In 2003, Neighborhood Housing Services of Chicago, in partnership with the city of Chicago and more than 30 partner lenders, launched the Homeownership Preservation Initiative to combat rising foreclosure rates in various parts of the city. The initiative combined intensive counseling for borrowers in serious delinquency, a telephone hotline linked to 24-hour credit counseling services, a faith-based outreach initiative to combat mortgage fraud, and workshops to help borrowers better understand how to avoid foreclosure. In its first three years, the initiative helped more than 1,300 families avoid foreclosure and educated thousands more about the issue of foreclosure and how to avoid it. An evaluation estimated the initiative saved the city \$9 million in police, fire, security, legal and other services and fees associated with foreclosure and vacant or abandoned properties. The evaluation also estimated that financial institutions saved as much as \$77 million in costs associated with repossession, retention and resale of foreclosed homes. Since high rates of foreclosure in particular neighborhoods drive down property values of surrounding properties, the initiative also may have saved the city millions in property tax revenues.¹⁹

Endnotes

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3. Based on their analysis of data from the Joint Committee on Taxation, the Congressional Research Service estimates that the home mortgage interest deduction will cost the federal government approximately \$69.4 billion in fiscal year 2006. Other federal tax policies that provide support for homeownership include the deduction for property taxes on owner-occupied homes, the exclusion of capital gains associated with the sale of primary residences and the exclusion of net-imputed rent. When the estimated costs of the property tax deduction (\$19.9 billion) and the exclusion of capital gains (\$24.1 billion) are added to that of the mortgage interest deduction, the estimated total revenue loss associated with federal tax policies that support homeownership in FY 2006 will exceed \$110 billion. Thomas L. Hungerford. 2006. *Tax Expenditures: Trends and Critiques*. Washington, D.C.: Congressional Research Service, the Library of Congress. Other federal tax policies support rental housing.
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12. Michael F. Schubert and Alison Thresher. 1996. *Lessons from the Field: Three Case Studies of Mixed-Income Housing Development*. Chicago: Great Cities Institute. College of Urban Planning and Public Affairs. University of Illinois at Chicago. A Great Cities Institute Working Paper; Paul C. Brophy and Rhonda N. Smith. 1997. "Mixed-Income Housing: Factors for Success," *Cityscape* 3:2.
13. Housing finance agencies compete with other government agencies for a limited amount of tax-exempt bond authority in each state. In some states, there is bond authority going unused. In other states, housing finance agencies may be able to convince the state to reallocate bond authority for rental housing in light of the additional federal funding this helps to leverage. A recent analysis found that tax-exempt bond authority under the private-activity bond cap was worth 3.5 times as much when used for rental homes than when used for other activities. This analysis found that the interest-rate savings from tax-exempt bonds was worth approximately 17 cents per dollar of bond cap, as compared with 43 cents per dollar of bond cap from 4 percent tax credit equity. So, the total value of \$1 in bond cap used for rental homes was 60 cents, as compared with 17 cents when used for other activities. See David Smith and Ethan Handelman. 2006. "The best use of volume cap is affordable rental housing." Boston, MA: Recap Advisors. Available at: <http://www.recapadvisors.com/pdf/wu57.pdf>.
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Appendix A: Methodology

The solutions included in this report have been selected for their potential to help communities expand the availability of homes affordable to moderate-income working families — teachers, firefighters, nurses, clerical workers, retail associates and others. By adapting or adopting some of these solutions, communities can help meet the needs of families with substantial housing cost burdens, families living in overcrowded or substandard homes, and families who cannot afford to live near their workplaces.

Five main criteria have been used to evaluate and select solutions for inclusion in this report:

- 1. Ease of financing.** In this analysis, a preference has been given to policies that require minimal commitment of additional state or city funds, unless those funds are supported by a new revenue source, or leverage significant federal funds that would not otherwise be available. Among other things, a focus on this criterion has elevated the importance of solutions that extend the duration of affordability periods and more effectively recycle existing subsidies to help more families.
- 2. Magnitude of potential impact.** The wide variation in the types of policy options considered in this report makes it difficult to develop an apples-to-apples comparison of the likely impact of these policies. However, this analysis focuses on policies that would, if adopted, have the potential to help a significant number of families in the applicable jurisdiction.
- 3. Replicability.** While not all solutions will be appropriate for or capable of implementation in all jurisdictions, in general, this analysis focuses on policies that could be implemented across large numbers of jurisdictions without encountering significant legal constraints or limitations of federal funding.
- 4. Flexibility.** A preference has been given to policies that preserve significant flexibility for local implementation, especially regarding the income levels of qualifying families.
- 5. Ease of implementation.** Preference has been given to policies that are easier to implement.

Given the great variation in the nature of the different policies considered for this report and the general lack of systematic data on their use and

outcomes, these ratings are inherently subjective. Over time, however, the Center for Housing Policy hopes to collect more systematic and uniform data that will allow more objective assessments.

The raw material for this analysis was a series of interviews with practitioners, policy-makers and other experts in housing policy, supplemented by a review of available literature. (See Appendix B: Completed Interviews for a list of individuals interviewed; the bibliography in the full report lists the resources reviewed.) While many of the conclusions expressed in this analysis are based on those sources, ultimately, the findings reflect the conclusions of the author, rather than those of the individuals surveyed, and the author bears sole responsibility for any errors.

This *Handbook of High-Impact State and Local Solutions* is adapted from a full report entitled, *Increasing the Availability of Affordable Homes: An Analysis of High-Impact State and Local Solutions*. The full analysis details each policy with regard to the outlined criteria, and provides recommendations for implementation and resources for obtaining additional information. The full report is available at www.nhc.org and www.homesforworkingfamilies.org.

Appendix B: Completed Interviews

William C. Apgar, Jr.,
Lecturer in Public Policy, Senior Scholar, Kennedy School of Government,
Harvard University

Doug Bibby,
President, National Multi Housing Council

Laurel Blatchford,
Chief of Staff and Deputy Commissioner for Strategic Planning, Policy and
Communications, New York City Department of Housing Preservation and
Development

Thomas Bledsoe,
President, Housing Partnership Network

Michael Bodaken,
President, National Housing Trust

Frank Cardone,
COO and Director of Development, The Related Companies of California

Sarah Carpenter,
Executive Director, Vermont Housing Finance Agency

Kent W. Colton,
President, K Colton LLC

Larry Dale,
Executive Vice President, Capmark

Shaun Donovan,
New York City Housing Commissioner, New York City Department of
Housing Preservation and Development

Helen Dunlap,
Former President, ShoreBank Advisory Services

Conrad Egan,
President and CEO, National Housing Conference

David Engel,
Director, Affordable Housing Research and Technology Division, Office
of Policy Development and Research, U.S. Department of Housing and
Urban Development

Jonette Hahn,
Principal, Reznick Group, P.C.

Sheila D. Harris,
Director, Arizona Department of Housing

David K. Hill,
Founder, Chairman and CEO, Kimball Hill Homes

Hunter L. Johnson,
President and CEO, LINC Housing

Hal Keller,
President, Ohio Capital Corporation for Housing

Peter Lawrence,
Legislative and Policy Associate, National Council of State
Housing Agencies

William C. Perkins,
Executive Director, Wisconsin Partnership for Housing Development

W. Matthew Perrenod,
Chief Lending Officer, Housing Partnership Network

J. Michael Pitchford,
President and CEO, Community Development and Preservation Corporation

Nicolas P. Retsinas,
Director, Harvard Joint Center for Housing Studies

Peter Richardson,
President, Housing Strategies Inc.

David Smith,
President, Recapitalization Advisors, Inc.

Michael A. Stegman,
Director of Policy, The John D. and Catherine T. MacArthur Foundation

Jeff Stern,
President, Riverside Advisors, LLC

Edwin Stromberg,
Program Manager, Environmental Impacts Research and Demonstration
Program, Office of Policy Development and Research, U.S. Department
of Housing and Urban Development

Christopher E. Tawa,
Senior Managing Director, Agency Bond Credit Enhancement,
MMA Financial, LLC

Larry Witte,
Director, Standard & Poor's

Appendix C: Glossary of Terms

Accessory dwelling unit: a smaller, private housing arrangement in, or adjacent to, an existing single-family home

Acquisition financing: funds obtained to purchase occupied or vacant land to build or rehabilitate homes

Allowable density: the number of housing units or structures that may be created per acre, as well as the height of such structures, within a particular residential zone

Building code: regulations established by a recognized agency describing design, building procedures and construction details for new homes or homes undergoing rehabilitation

Building permit: a permit issued by a local government agency that allows the construction or renovation of a home

Cross-subsidies: profits from the sale or rental of market-rate units used to support the construction and/or operating costs of other units, particularly affordable units

Foreclosure: the forced sale of property that has been pledged as security for a debt that is in default

Forgivable loan: a loan with no repayment obligation if program requirements are met for a specified period of time

Housing finance agency: a state or local agency that is chartered to meet the housing finance needs of low- and moderate-income households

Housing trust fund: a revenue source for the creation of affordable homes, including development and/or rental support

Impact fee: a fee most commonly assessed to developers upon the construction of new homes within a jurisdiction to cover the initial costs of servicing those homes with water, sewer and other public infrastructure

Inclusionary zoning: a policy that requires or encourages developers to include a minimum percentage of affordable homes within new developments

Infill: development that occurs on empty lots of land, or in spaces between buildings, or the redevelopment of existing lots in an urban area rather than on new undeveloped land outside the neighborhood, city or town

Land bank: a public authority created to efficiently acquire, hold, manage and develop tax-foreclosed property

Manufactured home: a type of home that is wholly or substantially built in a factory and then delivered to the building site for final assembly and installation

Multifamily home: a type of property that is designed for more than one family, such as a condominium or apartment building, which is usually built in highly populated areas where the housing need is great

Predatory lending: fraudulent or abusive lending practices in the mortgage market

Private-activity bonds: publicly issued bonds for a variety of private purposes, including housing, student loans, industrial development and solid waste and transportation facilities

Real estate transfer tax: state and/or local taxes that are assessed on real property when ownership of the property is transferred between parties

Recording fee: the fee a government charges for reporting a real estate purchase or sale in the public record

Silent second mortgage: a secondary home loan issued by a home-buying program to supplement a family's primary mortgage, which does not need to be repaid until the home is resold or refinanced

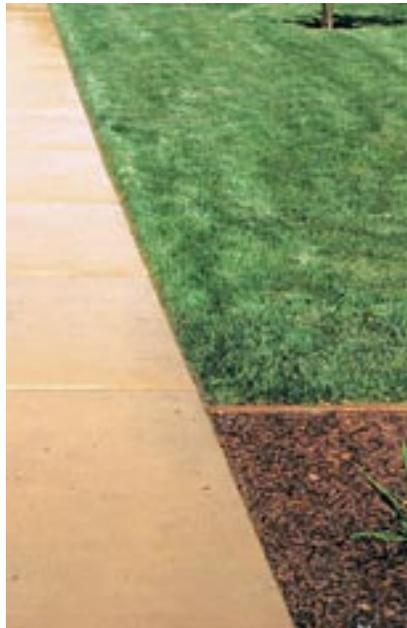
Single-family home: a type of property, usually standing alone, where one family owns the home and the land on which it stands

Tax abatement: a reduction of taxes or an exemption from taxes granted by a local government on a piece of property for a specified length of time

Tax increment financing: a tool used by municipalities to capture future, increased property tax revenue to make these dollars available as a development incentive, subsidy or investment

Tax liens: a lien against real estate for unpaid taxes

Tax-exempt bond: a bond whose interest payments are not subject to tax from federal, state and/or local authorities





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