

Affordable Housing Trust Funds

Concept and Discussion Paper

Shared Equity Housing Trust Ad Hoc Committee

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Background

The lack of affordable housing opportunities is costly to communities by increasing the need for emergency services, transportation options, and many other expenditures. In contrast, support for the preservation and production of affordable housing creates jobs, adds to the local tax base, increases individual and family stability, and reduces health, education, and transportation costs. Providing an adequate supply of decent affordable homes makes good economic sense and enables individuals and families to reach their full potential.

For nearly three decades housing trust funds have been changing the way in which affordable housing is developed and funded. Primarily an American housing development vehicle, housing trust funds recognize that adequate and affordable housing is fundamental to the health of communities and its citizens.

Housing trust funds first received attention in New Brunswick in the mid 1990s when a provincial *Committee on Shared Equity Housing in New Brunswick* met to explore the possible applications of the shared equity housing concept. This committee included representatives from government, the non profit and co-op housing sectors, the New Brunswick Home Builders Association, the financial sector and disability organizations. The establishment of a New Brunswick Affordable Housing Trust Fund was a central recommendation of this committee.

Subsequently, the New Brunswick Association for Community Living secured a small federal grant to sponsor the *Housing Trust Fund Project*. This project was directed by a committee consisting of representatives from the government and non profit sectors. The project conducted in depth research into housing trusts and set out detailed recommendations for using this vehicle to address housing needs in New Brunswick. While these recommendations were not acted upon at the time, many participants in that process believed that the concept held much promise for addressing housing needs in New Brunswick. Given current challenges and directions at a public policy level the time may now be right to revisit the benefits of housing trust funds. To pursue this further a small group of interested individuals from the non profit sector and from government created an ad hoc committee to raise awareness of the housing trust fund concept and its possible applications in new Brunswick (a list of the ad hoc committee members is included in Appendix A).

What are Housing Trust Funds?

Housing trust funds are public funds or distinct accounts established by legislation, ordinance or resolution to receive specific revenues, which are only used to support the development of affordable housing. The key characteristic of a housing trust fund is that it receives on-going revenues from dedicated sources of funding such as taxes, levies, fees or loan repayments. (It must be noted that in this context, housing trust funds are **not** the *Affordable Housing Trusts* recently established by the federal government to make housing funding available to provincial governments. These are essentially a federal funding and transfer vehicle that has a 3 year funding commitment).

Housing trust funds “systemically change reliance on annual budget allocations by shifting to committing dedicated public revenue to affordable housing through the creation of housing trust funds” (Brooks, 2007). In the United States, 38 states have established housing trust funds and there are more than 350 city and county housing trust funds in operation. Collectively, they dedicate in excess of \$1.6 billion a year to help address critical housing needs throughout the country.

According to a recent report, housing trust funds are described as “the single most impressive advance in the affordable housing field in the United States over the last several decades”. Because housing is at the very foundation of every healthy community, local and state governments are recognizing that they need to contribute public resources to adequately house their residents.

Housing trust funds can also serve as vehicles for developing and implementing a **shared equity approach** for the development of new affordable housing. “Shared equity” refers to a co-operative or partnership concept that encourages the bringing together of financial resources and other in-kind contributions from various sources to develop affordable housing. In many respects, the primary aim of the shared equity concept is to identify ways of raising equity from a variety of sources to minimize the financing costs to develop affordable housing. This may help to reduce the need for on-going subsidies to maintain housing affordability.

The Canadian Experience with Housing Trust Funds

While the U.S. experience with housing trust funds has been quite extensive, it has been less so in Canada. Accordingly, CMHC undertook some research to get a better understanding of local funding sources, i.e. housing trust funds that potentially could contribute to the development of affordable housing.

Two reports were produced, namely, *Housing Trust Funds: Their Nature and Applicability and Potential in Canada* by Richard Drdla (2000) and *Guide to Creating Housing Trust Funds in Canada* by Mary Brooks (2000).

The first report reviewed the U. S. experience as well as Canada's. At the time in Canada there were 5 existing Housing Trust Funds with another 3 being proposed – including the N.B. Affordable Housing Trust Fund. There were a further 5 locally based funds directed to affordable housing but were not considered housing trusts as they did not rely on a dedicated ongoing funding source.

While the Canadian experience to date has been limited, a housing trust concept is considered to be a viable option when attempting to put in place a longer term solution to addressing the need for affordable housing.

Why are Housing Trust Funds Successful?

The success of housing trust funds in many jurisdictions is clear and often remarkable. The success stems from three main characteristics of housing trust funds:

- Trust funds are typically established with decisions by governments to dedicate financial resources on an on-going basis for the development of affordable housing. They provide a “steady stream” of reliable revenue to support the on-going development of housing within a jurisdiction.
- Many trust funds have demonstrated an ability to leverage support from other public and private sources. In an earlier U.S. study it was noted that state housing trust funds leveraged an average of \$9.25 from private and public sector sources for every \$1.00 of financial support provided from a housing trust fund. This has meant that the impact of trust funds is multiplied beyond the direct resources that may be dedicated. In many respects, the dedication of resources by government is a springboard for the investment in social housing by many other actors.
- Housing trust funds in many jurisdictions have demonstrated a great deal of flexibility in addressing needs for affordable housing, particularly for people with low incomes. Because the funds are dedicated, they are usually the most flexible money available for affordable housing and allow for maximum efficiency in the use of these funds. The development and administration of housing trust funds draw upon broad base of support both within and outside government. They are often designed to be flexible enough to meet needs in different communities that other housing programs may not be able to address.

An important aspect of housing trust funds is that *they should not be seen to be a replacement for existing or other housing initiatives*. Housing trust funds are typically seen as another source of funding needed to complement existing resources. They represent a way of securing much needed public and private

resources and a way of providing flexible and innovative responses to needs for affordable housing.

What are the Key Components of Housing Trust Funds?

In addition to having enabling legislation and a dedicated source of revenue, housing trust funds have the following components:

1. Administration: Housing trust funds are typically administered by a public or quasi-public agency because they use public funds. The agency is responsible for the day-to-day operation of the fund. In addition, many housing trust funds are overseen by a board or by “trustees”. These boards are typically broadly representative of the “housing community” and include non-profit developers, housing advocates, realtors, financial representatives, etc.

Boards may be advisory or they may be given delegated decision-making authority, which may include decisions over the funding of projects or other uses for housing funds. The administrative authority is also responsible for preparing an annual report on the expenditures and accomplishment of the housing trust fund.

2. Housing Initiatives: Determining how housing funds are used involves a number of factors that are set out in the enabling legal framework. These factors include:

- *Determining eligible applicants for funding.* Eligible applicants typically include housing developers (non-profit and sometimes for profit), housing authorities, first nations bands, etc. Consideration may also be given to providing families who have adult children with disabilities to apply for funding to establish a housing unit for their son or daughter.
- *Determining eligible uses for funding.* Eligible uses are usually broadly defined and include new construction, rehabilitation, acquisition, emergency repairs, accessibility modifications, and sometimes rental assistance.
- *Determining eligible beneficiaries and other requirements for funding.* One of the most important decisions to be made regarding housing initiatives is the target populations and requirements that must be addressed. Many housing trust funds identify income levels of the intended beneficiaries of housing initiatives. Many housing trust funds also require that housing units remain affordable to the intended populations for a defined period or in perpetuity. Other requirements that are commonly identified include accessibility requirements, supporting green housing principles, mixed income units, the need to leverage funds from other sources, and so on.

Some housing trust funds target specific groups to benefit from housing initiatives. For example, this might involve setting aside a percentage or an identified amount per year to address the housing needs of persons with disabilities. New Jersey has established a housing trust fund to specifically address the housing requirements of people with disabilities.

3. Identifying and securing dedicated revenue sources. There are a variety of possible public sources for securing a dedicated source of funding. Many housing trust funds use real estate transfer taxes/fees, document recording fees, and interest on escrow accounts. Some jurisdictions use general revenues to annually fund the trust. Other sources can also be considered such as proceeds from lottery ticket sales or a special levy on property tax assessments. The key to identifying a revenue source is ensuring that there is sufficient on-going funding to address the housing needs of the target populations.

Affordable Housing Trust Funds: A Possible Model for New Brunswick

There are a number of important considerations for exploring the establishment of a provincial affordable housing trust fund for New Brunswick. In many respects, **the housing trust fund concept is an excellent fit with current government direction and policy and with the on-going need for affordable housing in New Brunswick.**

- ***Addressing Current Housing Need***

One of the most important considerations is that the need for affordable housing in New Brunswick remains very high (and has been significant over a period of many years). According to 2001 data, there are almost 30,000 New Brunswick “households” considered to be in “core housing need”. This means that nearly 30,000 households are experiencing a suitability, adequacy or affordability problem. This represents a significant proportion of the provincial population that is either spending more than 30 percent of their income on housing, is living in over-crowded conditions or is living in housing units that lack basic facilities. Adequate & affordable housing is seen as one of the key determinants of health and well being, and the lack of such housing will predictably lead to poorer health and increased cost to the province for health related needs.

Economic growth is also having an impact on the need for affordable housing, particularly in urban areas. For example, the recent *Benefits Blueprint* study in the Saint John area has noted that currently 35.8% of all renter households in Saint John pay more than 30% of their income on rent. It has been noted that additional demand for housing from economic development (particularly energy related development) will create “significant pressure on rent levels” and cause “particularly severe impacts for low to moderate renters and others in need of

affordable housing” (*Benefits Blueprint*, Hardy Stevenson and Associates Limited, 2007).

- ***Promoting Self Sufficiency and Reducing Poverty***

The Self Sufficiency Task Force pointed to the need to retain young and educated New Brunswickers and help them be productive, help those aboriginals and non-aboriginals who are under-employed and under-educated become more productive and less dependent on government support and finally, attract immigrants with skills and abilities to help move the Province move forward.

A lack of affordable housing is a major barrier towards meeting these goals as it prevents many New Brunswickers from maximizing their potential. In particular, aboriginal and non-aboriginal seniors, families with low-income and individuals with disabilities all require housing suitable to their needs.

It is recognized that families and individuals must have the basic necessities of life such as food, adequate and affordable shelter, and a certain level of safety and security before they can even begin to consider the possibility of progressing to bettering their state in life with education, better health and procuring steady and productive employment. As long as they do not have these basic necessities they will not become productive members of society and therefore will continue to need tax dollars instead of contributing tax dollars.

Access to affordable and adequate housing is also a cornerstone for reducing poverty. In correspondence with the New Brunswick Non-Profit Housing Association (dated October 16, 2007), Premier Graham noted that enhancing affordable housing programs as an important initiative “to address poverty and assist New Brunswickers in achieving self-sufficiency”.

In addition to known existing housing need, housing affordability is a major concern in several New Brunswick markets. Housing prices, rents and housing charges such as heating costs, have all been rising in recent years and thus affordable housing is becoming more and more beyond the reach of people with low incomes. For example, in Fredericton, where rents are the highest in the Province, a single parent must have a job paying 2 times the minimum wage, to be within the 30 per cent range of income on housing.

Further, it is well known that poverty rates continue to be very high in New Brunswick as 1 in every 6 children lives in poverty, according to the Saint John Human Development Council. Many families are in deep poverty as the average low-income 2 parent family would need an extra \$7400 in income to reach the poverty line.

People with disabilities who rely on social assistance also face significant challenges when it comes to affording adequate housing. Without additional

assistance, single people with disabilities receiving social assistance have to provide for all of their living expenses (including shelter) on \$600 per month or less.

As housing affordability becomes a more significant issue, the need for solutions aimed at providing greater access to affordable housing will be crucial.

- ***Developing a Provincial Housing Strategy***

As part of the plan to undertake action against poverty, the government's *Charter for Change* highlighted the need to address the need for affordable and adequate housing for new Brunswickers. The government committed to enhance affordable housing programs in both urban and rural areas in the province. Currently, the Department of Social Development is developing a provincial housing strategy. Such a strategy could incorporate an affordable housing trust fund as one of its cornerstones.

- ***Expanding Access for Personalized Supports to Persons with a Disability***

People who live with a disability (and their families) are increasingly asking for supports and services to be able to live in their own homes (rather than residential facilities). Over the past three years the province has tested a new support program for adults with disabilities under age 65 that has focused on supporting people to live in the community, including in their own homes. Many adults with disabilities continue to live with aging parents and will be needing access to affordable housing in the near future. The lack of affordable housing will greatly hamper efforts by people with disabilities to live more independent and fulfilling lives in their communities. Families who support an adult child with a disability are also looking for ways to contribute to affordable housing opportunities, but lack a vehicle to facilitate these plans.

- ***The Need to Continue and Expand the Progress Made Under the Affordable Rental Housing Program***

Over the past few years the Affordable Rental Housing Program has created a number of new affordable housing units during its three phases. Upon the completion of the third phase of the program, it is anticipated that over 1000 new affordable housing units will have been created. There is a significant question, however, as to the future on new affordable housing development after the committed federal funding for the program ends in March 2009. In addition, the factors of increasing affordability issues and the existing housing need in the province will mean that the need and waiting list for affordable housing will continue to outpace efforts to develop new housing units.

Conclusion

The considerations discussed above point to the crucial need for new and innovative ways to fund and develop affordable housing in New Brunswick. Housing trust funds represent a funding and development model that has great potential for moving our province forward in addressing this critical area. Housing trust funds work to create and stabilize funding dedicated to developing affordable housing over a sustained period. They provide a flexible vehicle that has potential for leveraging other resources to contribute to housing development. Given their success in other jurisdictions, a provincial housing trust fund can become a cornerstone of affordable housing development in New Brunswick.

Appendix A
Shared Equity Housing Trust Ad Hoc Committee

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Gary Glauser - N. B. Non Profit Housing Association
Kit Hickey - Housing Alternatives Inc.
Ken Pike – New Brunswick Association for Community Living
Jean Rioux – Department of Social Development
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