Achieving Homes for All
Alternative Revenue Sources for Affordable Housing in Minnesota

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Minnesota Housing Partnership
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An adequate supply of affordable housing is an essential component of stable, self-sufficient families, strong communities, and a healthy business environment. Communities across Minnesota are not currently meeting their affordable housing demand and are unlikely to do so in the near future. There are nearly 195,000 households in Minnesota that spend more than half of their income on housing. That is one out of every 10 Minnesota households.

The problem is not simply that housing is not affordable to all Minnesotans but that the number of Minnesotans burdened with housing costs is growing at a remarkable pace. In fact, between 2000 and 2004, the percentage of cost-burdened households in Minnesota increased by more than 40 percent from 20.34 percent to 28.52 percent—the fastest growth rate in the nation.

The main driver of this problem of declining affordability is the growing gap between incomes and housing costs. From 2000 to 2004, median household income in Minnesota declined nearly 3 percent in real terms from $52,384 (in 2004 dollars) in 2000 to $50,860 in 2004. In the same period, median home sales prices increased nearly 30 percent from $145,900 (in 2004 dollars) in 2000 to $189,500 in 2004.

Another factor that contributes to the decline in affordability is the location of affordable housing. Centers of job growth in Minnesota do not offer a full range of housing options to employees, especially to low-wage workers. In many instances, the uneven distribution of affordable housing forces Minnesotans to choose between affordable housing and lengthy commutes. Those who want to live closer to good schools and jobs are forced to assume housing expenses that exceed a reasonable percentage of their income. Those who opt for affordable housing are forced to accept high transportation costs that take valuable resources from already tight budgets. In the Twin Cities metro area, for instance, transportation costs consume almost 18 percent of a typical worker’s budget. This is a higher percentage than many

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1 Author’s calculations based on the National Low Income Housing Coalition’s Tabulations of the 2003 American Community Survey (ACS) PUMS data. 117,103 of these households had incomes less than 30 percent of the area median income (AMI) as determined by the ACS, while 51,471 of these households had incomes between 30 percent and 60 percent of the AMI. In other words, nearly 87 percent of these households had low or moderate incomes.

2 Author’s calculations based on 2000 and 2004 ACS data. These figures are based on the U.S. Department of Housing and Urban Development’s (HUD)’s definition of cost-burdened households, which includes anyone who spends more than 30 percent of their gross income on housing. Minnesota fares as badly when one looks at the percentage change in the share of severely cost-burdened Minnesotans—those who spend more than 50 percent of their gross income on housing. Between 2000 and 2004, the percentage of severely cost-burdened households in Minnesota increased by more than 69.67 percent from 6.47 percent to 10.98 percent—once again the fastest growth rate in the nation according to the ACS.

3 According to the ACS, the median household income in Minnesota in 2000 was $47,753 in 2000 dollars. Adjusting for inflation by using the Consumer Price Index, $47,753 in 2000 dollars equals $52,384 in 2004 dollars.

4 The median home sales price in Minnesota in 2000 was $133,000 in 2000 dollars. See Martha McMurry, “Minnesota Housing Prices Continue to Rise in 2003,” Minnesota State Demographic Center, February 2005, p. 2. Adjusting for inflation by using the Consumer Price Index, $133,000 in 2000 dollars equals $145,900 in 2004 dollars. The Minnesota Department of Revenue provided the figure for the median home sales price in Minnesota in 2004 based on its data on arms length sales of existing housing.
major metropolitan areas including Chicago and Atlanta.

Finally, a number of supply-related factors contribute to the problem of affordability. Minnesota is producing new housing neither at a fast enough pace nor in a wide price range. Rising land costs and insistence on lower densities limit the number of new housing units and raise the price of newly built units. Moreover, demolitions, conversion of affordable housing units to market rate units, closure of manufactured home parks, and condominium conversions threaten the state’s existing affordable housing stock.

Meanwhile, the resource environment for affordable housing has been changing. Since the late 1970s, the Federal government has been delegating more and more of its housing policy responsibilities to state and local governments. State and local governments, however, have not been committing the financial resources needed to meet the growing affordable housing need. In fact, the State of Minnesota has significantly reduced its commitment to affordable housing just as the affordability problem has intensified. From 2000 to 2004, when the percentage of cost-burdened Minnesotans jumped up by more than 40 percent, the state’s appropriations to the Minnesota Housing Finance Agency decreased by nearly 60 percent, from a high of $173 million in the 2000-2001 biennium to a low of nearly $70 million in the 2004-2005 biennium.

The State of Minnesota cannot be expected to be solely responsible for meeting the entire affordable housing need of its residents. This task requires the collaboration of a number of parties including the federal government, the private sector and the philanthropic community as well as the state government. However, unless the State of Minnesota makes a steady and significant commitment to affordable housing, leveraging resources from non-governmental sources will be increasingly difficult. The strength of Minnesota’s communities, the success of its families, and the health of its business environment depend upon ensuring a range of housing choices and opportunities for all Minnesotans.

While Minnesota continues to be one of the leading states in the nation in terms of its appropriations for affordable housing, the climate for increased appropriations continues to be a challenging one for housing advocates. Facing a growing need for affordable housing in this challenging climate, housing advocates are increasingly exploring the option of dedicated revenues. In contrast to appropriated funds, which can fluctuate widely from one legislative session to another, dedicated revenues tend to be more secure and dependable.

The purpose of this report is to explore dedicated

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7 It is important to note that the appropriations figure for the 2000-2001 biennium was unusually high due to a number of one-time appropriations. In fact, these one-time appropriations amounted to $93.3 million in addition to the 2000-2001 biennium base of $79.7 million. Between 2000 and 2003 a substantial amount of the MHFA’s appropriations came from a built-up reserve in funds from federal welfare to work funding called Temporary Assistance for Needy Families (TANF). Since federal law prohibits the use of TANF funds for construction of housing, the state legislature “traded” these funds for other eligible uses and freed up those state dollars for housing.

revenue sources that could significantly address the affordable housing needs of Minnesotans.

The report is organized into four sections:

Section I quantifies the additional grant or equity required to meet annual affordable housing needs in Minnesota and divides the cost into its components.

Section II reviews a number of states that either systematically allocate a significant amount of revenues to affordable housing or generate dedicated resources for affordable housing in innovative ways. This section examines how affordable housing revenues are raised and distributed in each of these states.

Section III identifies Minnesota’s existing housing resources and reviews past and ongoing legislative efforts to raise a dedicated revenue source for affordable housing in Minnesota.

Section IV evaluates potential revenue sources available to the state, considers a number of revenue raising strategies, and examines the factors that affect the political viability of these strategies.

We hope that this report addresses many of the questions in the minds of those who are interested in raising secure revenues for affordable housing in Minnesota. We expect this report to carry the existing affordable housing conversation forward by providing an essential context that will inform the decisions of policy makers.
Section I:
Assessing the Affordable Housing Need

The purpose of this section is to quantify the additional grant or equity required annually to meet the affordable housing need in Minnesota.

In 2003, BBC Research and Consulting conducted an assessment of affordable housing need in Minnesota. This study uses BBC’s final report, “The Next Decade of Housing in Minnesota,” as the basis for estimating the revenue required for affordable housing. Produced with the collaboration of leading housing institutions in Minnesota, the report is widely regarded as the definitive study of housing need in the state.

“The Next Decade of Housing in Minnesota” quantifies the need for affordable housing in Minnesota from 2000 to 2010, breaks down housing demand in 2010 by income and family type, and identifies the unmet need for affordable housing in 2010. Despite its numerous strengths, the report offers a conservative estimate of affordable housing need in Minnesota because it does not account for the following components of need: replacement of lost affordable housing; improper housing or overcrowding; housing need due to pent-up demand; and additional housing necessary to create optimal vacancy rates.

Given the conservative nature of this assessment, the financial need estimates provided in this study should be considered a baseline rather than a comprehensive picture of the additional resources required for affordable housing in Minnesota.

“The Next Decade of Housing in Minnesota” identifies two key components of affordable housing need: housing assistance need for low-income households living in unaffordable units and new construction need to meet the expected physical shortfall of affordable housing units.

The two main findings of the report can be summarized as follows:

1. 296,740 low-income Minnesota households

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9 The BBC research team intentionally declined to estimate housing need by tenure (owner vs. renter) since “developing such an estimate would have required the research team to understand the policy stance of local, regional and state-level policymakers toward housing production and predict their decisions regarding acceptable levels of subsidy for owner and rental housing in the future.” See BBC Research and Consulting, “The Next Decade of Housing in Minnesota,” Section I, p. 3. This is a methodologically sound forecast decision that helped the research team to avoid a number of prescriptive assumptions. However, one still needs a specific owner/renter breakdown to quantify the dollar amount necessary to meet the physical need identified by the BBC group because the cost of subsidies required to meet the need depends on this breakdown.

10 The first two of these components of need are notoriously hard to quantify due to lack of reliable data. While the BBC study acknowledges leaving out the first two components due to data limitations, the exclusion of the last two components is a methodological choice that is not justified in the study. Future estimates of need should incorporate all of these components to reach a more comprehensive and realistic picture of housing need in Minnesota as better quality data becomes available.

11 The BBC research team defines low-income households as households who earn less than 80 percent of the HUD median family income in Greater Minnesota and households who earn less than 60 percent of the HUD median family income in the seven county Twin Cities metropolitan area. The team uses this hybrid definition to take into account the “variance in incomes, housing prices and purchasing power between most of Greater Minnesota and the Twin Cities.” Due to this variance, the team argues, “simply defining a low-income household at the same cutoff percentage (e.g. 60 percent of income) throughout the state would misrepresent the number of households that indeed have difficulty finding affordable housing.” See BBC Research and Consulting, “The Next Decade of Housing in Minnesota,” Section II, p. 4. According to HUD, the median family income for the Twin Cities metropolitan area in FY 2006 was $74,700, while the same figure for the rest of Minnesota was $55,100.
were living in unaffordable housing units in 2000.\(^{12}\)

2. In 2010, 32,825 additional low-income households will be in need of newly constructed affordable homes.\(^ {13}\)

Based on this assessment, we estimate the cost of meeting the housing assistance and new construction needs.

In our estimate of the housing assistance component of need, we focus exclusively on the needs of the extremely low-income renters. We do so because of data limitations which make it impossible to quantify housing assistance need for owners at all income levels and renters other than those with extremely low incomes. Given these limitations, we at least highlight the housing assistance needs of those Minnesotans with the lowest incomes and the most critical housing assistance need.

In contrast, in our estimate of the new construction component of need, we analyze the new construction needs of all additional low-income households including renters and owners. While the data we use to estimate this component of need is far from perfect, it is of sufficient quality for us to make an estimate.

**Housing Assistance Need**

In estimating the housing assistance need, we focus on the housing needs of renter households. We do acknowledge the presence of many Minnesota homeowners who are cost burdened but we intentionally choose to focus on renters. Owners who are cost burdened usually have assets they can use to mitigate their cost burden or at least have the option of selling their houses and renting if owning a home is too costly for them. However, renters living in unaffordable housing units usually have no option to relieve their cost burden by changing their tenure status. This is especially the case for Extremely Low Income (ELI) renters, whose incomes are less than or equal to 30 percent of the AMI.

We approximate the cost of meeting the housing assistance needs of renter households with the rental subsidies required to bring their rents down to 30 percent of their incomes—the affordable rate according to the current HUD definition. In estimating the cost of these rental subsidies, we further limit ourselves to the rental subsidies that should be extended to ELI renters. This choice is primarily driven by the difficulty of quantifying housing assistance need for cost-burdened renter households other than the ELI families.

We approximate the cost of the rental subsidies extended to ELI households by the average-per-unit cost of a Section 8 voucher in Minnesota—$6,336 a year.\(^ {14}\) We rely on the National Low Income Housing Coalition’s tabulations of the 2003 ACS PUMS data in order to calculate the

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12 This means that these households spend more than 30 percent of their household income on rent or ownership related costs despite the presence of state programs that aim to reduce the cost-burden of renters and owners. In Minnesota, the Property Tax Refund program provides tax relief to households whose property taxes are high in relation to their income. The program is commonly called the Circuit Breaker when it applies to homeowners and the Renters’ Credit when it applies to renters. In addition, further tax relief is extended to Minnesota’s homeowners through the state’s mortgage interest deduction, which is modeled after the Federal mortgage interest deduction. Only a low percentage of the state’s low-income residents claim the state mortgage interest deduction because these residents do not usually itemize their deductions and take the standard deduction instead.

13 The BBC research team assumes that the additional housing need arising out of population growth would exclusively be addressed by the construction of new units. While we acknowledge that this supply-based strategy is not the only way of meeting this component of need and that a number of demand-based strategies such as operating subsidies, vouchers, and affordability gap assistance would likely be used to address this additional need, we adopt BBC’s assumption in the rest of this report to remain consistent with the findings of “The Next Decade of Housing in Minnesota” report.

14 Diane Smill, Minneapolis Office of Public Housing, Department of Housing and Urban Development, provided the average-per-unit cost of a Section 8 voucher in Minnesota (09/20/05).
percentage of cost-burdened ELI households who are renters. According to this data set, nearly 59 percent of the cost-burdened ELI households in Minnesota are renters. This implies that of the 106,181 ELI households in Minnesota that the BBC report identified as cost burdened, 62,516 of them are renters. Based on the latest annual average-per-unit cost of a Section 8 voucher in Minnesota, the annual cost of rental subsidies that need to be extended to these households amounts to $396 million.\textsuperscript{16}

It is important to note once more that our calculation of the housing assistance need takes into account only the needs of the Minnesotans whose affordability problems are the most critical. These households have the highest likelihood of becoming homeless unless their housing burden is somehow relieved. They, however, make up approximately one fifth of the overall Minnesota households who live in unaffordable housing units. A more comprehensive estimate of the housing assistance need in Minnesota would require determining the amount of resources required to relieve the burden of the remaining 235,000 households who live in unaffordable housing units.

**New Construction Need**

The cost of meeting the new construction need depends on the amount of construction subsidies required to spur the development of new owner and rental units to avoid the projected shortfall of affordable housing units that would be needed by 32,825 additional low-income households in 2010. As building and land costs continue to go up in Minnesota, production of affordable housing by private developers and builders becomes economically less viable.\textsuperscript{17} Public subsidies are required to make the construction of affordable housing sufficiently profitable and enticing for the private market.

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\textsuperscript{15} Note that the number of cost-burdened ELI households calculated by the National Low Income Housing Coalition (NLIHC) is significantly different than the number of cost-burdened households identified in the "The Next Decade of Housing in Minnesota.” Part of this difference can be attributed to the fact that the NLIHC uses more recent data from the 2003 ACS while the BBC report relies on the 2000 U. S. Census data. The rest of the difference can be attributed to the fact that unlike the BBC report, which uses median family incomes to calculate the number of cost-burdened families, the NLIHC instead uses median household incomes. Despite these methodological and data differences, there is no reason to believe that the proportion of cost-burdened renters to cost-burdened owners should differ in these studies. Thus we use the tenure breakdown of cost-burdened ELI households calculated from the ACS data as a proxy for the tenure breakdown of cost-burdened ELI households identified by the BBC report.

\textsuperscript{16} These figures do not take into account the future inflation of rents or incomes.

We estimate the construction subsidies required for new owner and rental units separately. We calculate the cost subsidy figures from the single- and multi-family projects that the Minnesota Housing Finance Agency (MHFA) financed through the Super RFP process between 2003 and 2005. We then use these figures as a proxy for the construction subsidies needed for the construction of owner and rental units, respectively. We chose to focus on projects from the last three years rather than selecting only the 2005 projects in order to base our calculations on a larger sample of projects.

Construction Subsidies for Owner Units

In calculating the per unit cost subsidies for owner units, we only focused on the units created by the Super RFP process and left out the units subsidized by ownership programs outside the Super RFP process. Outside the Super RFP process, the MHFA offers a range of ownership programs which provide down payment and mortgage assistance to low-income households who could not otherwise afford a market rate unit. These programs, which offer assistance to households in both new and existing units, do not cause the construction of units that would otherwise not be built. Thus, we excluded the units subsidized through the down payment and mortgage assistance programs since the inclusion of these subsidies would have skewed the construction subsidies required for the construction of new owner units.

Among the owner units subsidized exclusively through the Super RFP process, we only selected the single-family projects where gap financing subsidies went either to the construction of new homes or to the acquisition of homes with substantial rehabilitation needs. We excluded the projects which received subsidies for owner rehabilitation only because these projects do not increase the number of affordable housing units available to the public.

We also excluded the projects that received affordability gap contributions only and included just the projects that received either value gap contributions only or both value and affordability gap contributions. We chose to do so because

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18 The MHFA estimates the development costs of some of its projects to be a little higher than comparable market projects. See the MHFA Board Report, October 27, 2005, Section 6B, p. 5. The projects financed by the MHFA have to meet more stringent standards and regulations to qualify for construction assistance. This raises the development costs of the projects. We argue that estimating the construction subsidies based on these higher development costs is appropriate because we consider the construction of new affordable housing a public investment, which needs to conform to public standards and regulations.

19 While equating single-family projects with owner occupancy and multi-family projects with renter occupancy is somewhat outdated given the growing prevalence of town homes and scattered-site single-family rental units, in this study, we did this to remain consistent with the MHFA's Super RFP process.

20 The Super RFP figures reflect projected rather than actual costs. This is a limitation of the dataset we chose to use. However, in the absence of readily accessible statewide data on the development costs of affordable housing projects, we decided to use this dataset despite this limitation. MHP comparisons of projected and actual development costs indicate that actual costs are, on average, 8.3 percent higher than the projected figures. The MHFA has been conducting a construction cost analysis of all the MHFA-financed properties based on closing rather than projected costs. However, the results of this analysis were not available as of the publication date of this report. It should also be noted that the MHFA staff did not independently verify the figures in the MHFA Board reports, upon which our calculations were based.

21 These programs include the Community Activity Set-Aside Program, Entry Cost Homeownership Opportunity Program, Minnesota City Participation Program, and the Minnesota Mortgage Program among others. Part of the funds for these programs comes from the Homeownership Assistance Fund.

22 Affordability gap contributions are the subsidies extended to potential buyers to enable them to afford a housing unit given their existing income. Value gap contributions, in contrast, are the subsidies extended to developers to enable them to develop affordable housing projects without losing money. The development costs of affordable housing units tend to exceed their selling prices, which are based on market conditions. Value gap contributions make up for the difference between the development cost and the market price, in cases where the former exceeds the latter.
affordability gap contributions per se do not necessarily add to the supply of affordable housing. Appendix I discusses the methodology of our calculations in further detail.

Table I-1 breaks down the total and per unit gap contributions for the single-family projects funded by the MHFA through the Super RFP process from 2003 to 2005. In 2003, the projects that remained after the eliminations described above received a per unit total gap contribution of $31,945 in 2003 dollars. In 2004, the corresponding per unit total gap contribution was $46,645 in 2004 dollars. The figure for 2005 was $45,876 in 2005 dollars. Since development costs go up approximately 3.5 percent each year, we inflated the 2003 and 2004 figures to reflect their real value in 2005 dollars.23 We then calculated the average of these three figures (all in 2005 dollars) to reach the per unit total gap contribution of $42,791.

**Construction Subsidies for Rental Units**

In calculating the per unit cost subsidies for rental units, we only focused on the units created by the Super RFP process and left out the units subsidized by rental programs outside the Super RFP process. Outside the Super RFP process, the MHFA offers a range of rental programs which ensure the continuing viability of the rental properties which received MHFA investments. We did not take these programs into consideration because these programs do not create new affordable units but simply maintain or rehabilitate existing units.

Among the rental units subsidized through the Super RFP process, we excluded the multi-family projects where subsidies exclusively went to either rental assistance or operating subsidies for two reasons. First, in most cases these subsidies did not contribute to the creation of new units. Second, in cases where these subsidies did contribute to the construction of new units, their inclusion would have distorted the cost subsidies required for new construction. Rental assistance and operating subsidies, which enable low income households to inhabit units that are not otherwise affordable, do not directly subsidize

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23 Han Lee, Architect at the Minnesota Housing Finance Agency, provided the 3.5 percent figure as a rough estimate. We constructed an index which took into account the approximate annual changes in labor, material, and land costs based on data from the Minnesota Department of Employment and Economic Development, the Bureau of Labor Statistics, and the Minnesota Department of Revenue. The index confirmed the number provided by Mr. Lee. When inflated at an annual rate of 3.5 percent, $31,945 in 2003 dollars are worth $33,063 in 2004 dollars and $34,220 in 2005 dollars. Similarly, when inflated at annual rate of 3.5 percent, $46,645 in 2004 dollars are worth $48,278 in 2005 dollars.
As a result, their inclusion would skew the amount of cost subsidies required for the construction of new affordable housing units. We also excluded the multi-family projects where subsidies were extended for preservation, rehabilitation or maintenance work that did not involve acquisition of new units because these subsidies do not add new units to the supply of affordable housing.

We analyzed all the funding sources that contributed to the multi-family projects funded by the MHFA and divided them into two general categories: grant-equivalent contributions and amortizing debt finance contributions. We define grant-equivalent contributions as the sum total of deferred loans, grants or donations, and owner contributions. The common defining characteristic of these funds is that they do not need to be repaid on an ongoing basis out of the tenants’ rent payments and the project owners’ mortgage payments. Amortizing debt finance contributions, in contrast, are borrowed funds that need to be repaid on an ongoing basis out of the rent payments of the tenants and the mortgage payments of the owners. Amortizing debt finance contributions directly impact the affordability of the units in the sense that the higher the percentage of amortizing debt finance contributions in overall contributions, the less affordable the units become for the tenants.

In our calculation of the per unit cost subsidies for rental units, we only included the grant-equivalent contributions and left out the amortizing debt finance contributions. While amortizing debt finance funds are essential for expanding the supply of affordable housing, the availability of these funds limits the construction of new affordable housing to a lesser extent than the availability of grant-equivalent funds. Unlike amortizing debt finance funds that are widely available in commercial markets, grant-equivalent funds are in short supply. We chose to include only the grant-equivalent contributions in our calculations because the shortage of these funds, and not the amortized debt finance, sets a limit on the supply of affordable housing. In other words, to produce a larger supply of multi-family projects, what is really required is an additional infusion of grant-equivalent funds. Our implicit assumption is that once these additional grant-equivalent funds are provided, the projects should attract the necessary amortizing debt finance contributions with relative ease. Table I-2 details the funding sources that went into the multi-family projects funded by the MHFA between 2003 and 2005.

24 Besides, since rental assistance and operating subsidies are provided over time, it is hard to link them to the one-time, front-end gap subsidy needed to create an affordable unit.

25 Grant-equivalent contributions include the following funds: state funds (non-amortizing contributions received from state general obligation (GO) or state revenue bonds, as well as funds from the Department of Human Services and the MHFA); other public funds (non-amortizing contributions received from the Federal government, the Metropolitan Council, and the local governments); owner contributed funds (non-amortizing contributions received from the project owner or developer); charitable funds (non-amortizing contributions received from businesses, philanthropic organizations, the Federal Home Loan Bank, the Family Housing Fund, and the Greater Minnesota Housing Fund); and syndication proceeds (contributions received through the proceeds of the Low-Income Housing Tax Credit and Historic Tax Credit syndications). We also categorized anticipated contributions received from unidentified sources as non-amortizing.

26 Amortizing debt contributions include the following types of funds: commercial loans (sum total of first mortgages and bank loans), TIF mortgages and loans, CDA/HRA amortizing mortgages, tax-exempt bond loans, FHA insured loans, and MHFA loans (LMIR).

27 We acknowledge that additional infusion of grant-equivalent funds is not the only way to enhance the supply of affordable housing. Encouraging the development of lower-cost housing by reducing development costs is another means of expanding the supply of affordable housing. One way of reducing development costs is changing regulations. While regulations such as building codes, land use policies and zoning, and subdivision ordinances serve valuable public purposes, they can also add to development costs. Streamlining permit application processes can help reduce these costs and new building codes could be introduced to facilitate the rehabilitation of older buildings. While such cost-reduction strategies are valuable in mitigating rising land and construction costs, one cannot solely rely on them to ensure the creation of new affordable housing.
In our calculation of the per unit cost subsidies for rental units, we also deducted the syndication proceeds of the Low-Income Housing Tax Credit (LIHTC) program from the total amount of grant-equivalent contributions. Although we consider the syndication proceeds from the LIHTC program as grant-equivalent contributions, the funding mechanism for this program is different from other sources in the grant-equivalent category. Unlike other grant-equivalent contributions, the

Table I-2: Funding Sources for MHFA Funded Multi-Family Projects, 2003-2005

<table>
<thead>
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<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
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<td><strong>GRANT-EQUIVALENT CONTRIBUTIONS</strong></td>
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<td><strong>STATE FUNDS</strong></td>
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<td>GO/Revenue Bond</td>
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<td>DHS/Other State Department</td>
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<td>610,000</td>
<td>1,630,900</td>
<td>1,174,827</td>
</tr>
<tr>
<td>Local</td>
<td>54,188,806</td>
<td>12,319,290</td>
<td>20,734,435</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60,606,218</td>
<td>26,217,193</td>
<td>33,115,603</td>
</tr>
<tr>
<td><strong>OWNER CONTRIBUTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,794,335</td>
<td>4,617,282</td>
<td>5,489,058</td>
</tr>
<tr>
<td><strong>CHARITABLE CONTRIBUTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>706,000</td>
<td>184,574</td>
<td>112,400</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>1,276,974</td>
<td>2,771,608</td>
<td>2,088,923</td>
</tr>
<tr>
<td>Federal Home Loan Bank</td>
<td>1,316,500</td>
<td>1,019,198</td>
<td>1,094,500</td>
</tr>
<tr>
<td>FHF/GMHF</td>
<td>6,748,771</td>
<td>4,525,000</td>
<td>9,481,599</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,048,245</td>
<td>8,500,380</td>
<td>12,777,422</td>
</tr>
<tr>
<td><strong>SYNDICATION PROCEEDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>61,192,605</td>
<td>63,990,132</td>
<td>106,266,316</td>
</tr>
<tr>
<td><strong>OTHER NON-AMORTIZED FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,533,725</td>
<td>1,094,000</td>
<td>1,985,083</td>
</tr>
<tr>
<td><strong>GRANT-EQUIVALENT CONTRIBUTION TOTAL</strong></td>
<td>181,491,364</td>
<td>119,957,851</td>
<td>180,354,005</td>
</tr>
<tr>
<td><strong>AMORTIZED DEBT FINANCE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Loans</td>
<td>65,238,229</td>
<td>12,965,871</td>
<td>12,143,163</td>
</tr>
<tr>
<td>Tax Increment Finance Mortgages/Loans</td>
<td>-</td>
<td>-</td>
<td>2,405,846</td>
</tr>
<tr>
<td>CDA/HRA Amortizing Mortgages</td>
<td>-</td>
<td>-</td>
<td>1,973,755</td>
</tr>
<tr>
<td>Tax-Exempt Bond Loans</td>
<td>8,389,000</td>
<td>7,096,893</td>
<td>714,060</td>
</tr>
<tr>
<td>FHA Insured Loans</td>
<td>5,737,529</td>
<td>3,106,651</td>
<td>12,691,900</td>
</tr>
<tr>
<td>MHFA Loans (LMIR)</td>
<td>4,105,769</td>
<td>9,497,104</td>
<td>11,186,820</td>
</tr>
<tr>
<td><strong>AMORTIZED DEBT FINANCE TOTAL</strong></td>
<td>83,470,527</td>
<td>32,666,519</td>
<td>41,115,544</td>
</tr>
<tr>
<td><strong>TOTAL CONTRIBUTIONS</strong></td>
<td>264,961,891</td>
<td>152,624,370</td>
<td>221,469,549</td>
</tr>
</tbody>
</table>

All projects are funded through the Super RFP Process.

Source: 2003-2005 MHFA Board Reports
LIHTC funds do not come through annual appropriations but are allocated based on a need-based formula. This formula is roughly tied to growth in housing demand since the program funds for each state are indexed to inflation and population growth.

In other words, compared to other grant-equivalent funds, the syndication proceeds are the one funding source that is most likely to grow and generate new grant-equivalent sources toward addressing the unmet new construction need in Minnesota. Therefore, we chose to calculate the per unit cost subsidies for rental units under the assumption that the federal government will continue to provide this valuable program for the production of affordable housing. We subtracted the syndication proceeds of the LIHTC program from the total amount of grant-equivalent contributions needed for the construction of new rental units to reflect our assumption that the State of Minnesota will receive increased syndication proceeds from the federal government.\textsuperscript{28}

Based on the distribution of funding sources summarized in Table I-2, we calculated the per unit grant-equivalent contributions (excluding the syndication proceeds) for each year and used these per unit contributions as a proxy for the per unit cost subsidies for rental units. Table I-3 breaks down the total and per unit grant-equivalent contributions for the multi-family projects funded by the MHFA through the Super RFP process from 2003 to 2005.

In 2003, the per unit grant-equivalent contributions extended to multi-family projects amounted to $59,999 in 2003 dollars. The corresponding per unit grant equivalent gap finance subsidy for 2004 was $48,000 in 2004 dollars. The figure for 2005 was $54,476. Once again, since development costs go up approximately 3.5 percent each year, we inflated the 2003 and 2004 figures to reflect their real value in 2005 dollars.\textsuperscript{29} We then

\begin{table}
\centering
\caption{Total Construction Subsidies for MHFA Funded Multi-Family Projects, 2003-2005}
\begin{tabular}{llllllll}
\hline
Total & Grant-Equivalent & Total Grant-Equivalent & Per Unit Cost \\
Grant-Equivalent & Contributions: & Contributions Net of Syndication Proceeds: & Subsidies \\
& (X) & (X)-(Y) & Project Units: & Required: \\
Syndication Proceeds: & (Y) & (Z) & & \{(X)-(Y)\}/(Z) & \\
\hline
2003 & 181,491,364 & 61,192,605 & 120,298,759 & 2,005 & 59,999 \\
2004 & 119,957,851 & 63,990,132 & 55,967,719 & 1,166 & 48,000 \\
2005 & 180,354,005 & 106,266,316 & 74,087,689 & 1,360 & 54,476 \\
\hline
\end{tabular}
\end{table}

\textit{All projects are funded through the Super RFP process.

Source: 2003-2005 MHFA Board Reports}

\textsuperscript{28} For those who do not want to count on the syndication proceeds from the LIHTC program, we also calculated the per unit cost subsidies required for the construction of rental units under the assumption that the syndication proceeds from the LIHTC program should not be taken for granted. Under this scenario, since the grant-equivalent funds coming from syndication proceeds would not be available, an equivalent amount must be raised through state or other resources. In other words, in the absence of these credits, other sources must make up for the difference by increasing their grant-equivalent contributions by an amount equal to the current level of syndication proceeds. In this alternative calculation of the per unit cost subsidies for rental units, we added an amount equal to the current syndication proceeds to the total grant-equivalent contributions minus syndication proceeds to account for the additional funding need. This almost doubled our average per unit cost subsidy figures for rental units to $112,020. For details of our calculations, see Appendix I.

29
calculated the average of these three figures (all in 2005 dollars) to reach the average per unit grant-equivalent contribution of $56,143.\(^{29}\)

**Rental vs. Owner Units**

In order to calculate the total dollar amount of the construction subsidies needed to spur the development of new owner and rental units, the next piece of information required is the renter/owner breakdown of the units that would be newly constructed in 2010. This specific breakdown would depend upon the policy decisions of a number of actors involved in housing subsidies. Given the impossibility of guessing these policy decisions in advance, we estimated this breakdown based on the income profiles of the 32,825 additional low-income households who were projected by the BBC report to be in need of affordable housing units in 2010. Table I-4 summarizes the income breakdown of the low-income households that will be in need of new affordable housing units in 2010.\(^{31}\)

At the very low end of the income spectrum, we advise against subsidizing the construction of owner units for Extremely Low Income (ELI) households for a number of reasons. First, at low levels of income, people experience a fragility of income which makes home ownership difficult to sustain.\(^{32}\) Second, the construction subsidies required to make owner units affordable to households with such low incomes would be excessively deep. As a result, developers of affordable housing are rarely successful in developing owner units for people at this income level. Based on these reasons, we believe that subsidies offered to assist the construction of units affordable to households at this extremely low income level should be exclusively for rental units. Thus, we assume that at this income level, the renter/owner breakdown would be 100 percent renter units.

At the high end of the low-income spectrum, in contrast, three factors converge to suggest that the new Greater Minnesota households with incomes ranging from 60 to 80 percent of

<table>
<thead>
<tr>
<th>Household Income Level</th>
<th>Number of Households in Need of New Affordable Housing in 2010</th>
<th>Percentage of All Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% of HUD median family income or less</td>
<td>10,795</td>
<td>33%</td>
</tr>
<tr>
<td>30-50% of HUD median family income</td>
<td>12,158</td>
<td>37%</td>
</tr>
<tr>
<td>50-60% of HUD median family income</td>
<td>6,832</td>
<td>21%</td>
</tr>
<tr>
<td>60-80% of HUD median family income</td>
<td>3,040</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32,825</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


---

\(^{29}\) When inflated at an annual rate of 3.5 percent, $59,999 in 2003 dollars are worth $62,099 in 2004 dollars and $64,272 in 2005 dollars. Similarly, when inflated at an annual rate of 3.5 percent, $48,000 in 2004 dollars are worth $49,680 in 2005 dollars.

\(^{30}\) See Appendix II for a detailed breakdown of the income levels targeted by these rental subsidies.

\(^{31}\) The numbers in this table are taken from Exhibit 4 of “The Next Decade of Housing in Minnesota” report cited above. The households in the 60 to 80 percent of the median income category include Greater Minnesota households only.

the HUD median family income would be exclusively served through affordable homeownership programs. First, driven by low land costs, the relatively low cost of homeownership in rural Minnesota makes it possible to subsidize homeownership with relatively modest construction subsidies. Second, the unavailability of Low-Income Housing Tax Credit funds to projects serving people at this income level makes the construction of multi-family projects with rental units extremely difficult. Third, the scale of multi-family projects in Greater Minnesota is often too small to permit on-site management. Low density development makes the management of new multi-family projects more costly in Greater Minnesota, and further stacks the odds against the construction of affordable rental units in the area. For these reasons, we assume that at this income level, the renter/owner breakdown would be 100 percent owner units.

It is relatively straightforward to assume a rental/owner breakdown at the low and high extremes of the low-income spectrum. Identifying the rental/owner breakdown for people with incomes ranging from 30 to 60 percent of the HUD median family income, however, is far more complicated. Given the impossibility of guessing the large number of policy decisions that would impact this breakdown, we chose to base our estimates on the rental/owner breakdown of the MHFA programs. We realize that MHFA is not the only institution whose decisions impact the rental/owner breakdown of the additional affordable housing units needed in the state. However, the wide scope and scale of the agency’s contribution to the construction of affordable housing in Minnesota make it the driver of housing policy in the state. While the agency makes choices within the limits of the policy decisions of other political actors, it shapes the state’s housing choices in terms of the rental/owner breakdown to an extent that no other single political actor could.

Our implicit assumption is that the rental/owner breakdown of the MHFA programs in 2010 would not be significantly different from the breakdown of these programs in the past three years. In our estimate of the rental/owner breakdown, we used all the MHFA programs that contribute to the creation of new affordable housing units regardless of the type of assistance these programs provided. This meant including some of the projects that were excluded from our previous calculations.

In our cost subsidy calculations for rental units, we had excluded the multi-family projects that received rental assistance and/or operating subsidies. In contrast, we chose to include these units in our rental/owner breakdown calculation in order to reflect the full spectrum of rental assistance offered by the MHFA. Rental assistance and operating subsidies are tools used by the MHFA in making new rental housing affordable to low-income residents; the number of units made affordable through these tools had to be taken into account to cover all of the new rental units subsidized by the MHFA.

33 According to the Greater Minnesota Housing Fund, it is also very difficult to provide rental housing in small communities in Greater Minnesota because these communities usually have small projects with high up front development costs and high management costs that could not be spread among sufficient number of units. Personal communication with Jeremy LaCroix, Program Officer, Greater Minnesota Housing Fund (05/10/06).

34 It is important to note that this assumption neither implies that there is no need for rental housing in Greater Minnesota nor that there should not be any rental housing in the area. We simply intended to highlight the barriers that are likely to impede the construction of multi-family projects with affordable rental units in Greater Minnesota.

35 Given the impossibility of guessing whether this would be the case or not, we simply make this simplifying assumption to avoid potential mistakes associated with wrong predictions regarding the Agency’s future policy decisions.

36 For the purpose of calculating the construction subsidies, we had to exclude these projects because their inclusion would have distorted the amount of subsidies required for the construction of new rental units.
Similarly for our cost subsidy calculations for owner units, we only focused on the single-family units created throughout the Super RFP process and left out the subsidies the MHFA extended through its ownership programs outside the Super RFP process. In contrast, we chose to include the new owner units that received down payment or mortgage assistance in our calculation of the rental/owner breakdown to reflect the full spectrum of owner assistance offered by the MHFA and to account for all the new owner units subsidized by the agency.

Appendix II discusses in further detail the methodology of our analysis of the rental/owner breakdown of the new units created by the MHFA programs. The analysis demonstrates that 68.6 percent of the new units targeted to people with incomes between 30 and 50 percent of the HUD median family income were rental units. The rental percentage of all the new units targeted to people with incomes between 50 and 60 percent of the HUD median family income was 73.2 percent.

Finally, we distributed all the low-income households who will need new affordable housing units in 2010 according to the rental/owner percentages estimated above. Table I-5 summarizes the resulting rental/owner breakdown of low-income households by income level.

As Table I-5 demonstrates, 24,134 new rental units and 8,691 new owner units will be required to affordably house the additional 32,825 low-income households who will need affordable housing units in 2010. Given the per unit construction subsidy of $42,791 for owner units, the cost of subsidizing the construction of these new 8,691 owner units would amount to $371.9 million. Similarly, given the per unit construction subsidy of $56,143 for rental units, it would cost $1.355 billion to subsidize the construction of these 24,134 new rental units.

This brings the sum total of the construction subsidies required to spur the development of 32,825 new units by 2010 to $1.727 billion. Since this total reflects the amount of subsidies required for a decade, we divide this total by 10 to reach the annual amount of construction subsidies required to meet the new construction need. The State of Minnesota would need an annual amount of $172.7 million for a decade to meet its new construction need.

**Table I-5: Rental/Owner Breakdown of the Additional Low-Income Minnesota Households in Need of Affordable Housing in 2010 by Income**

<table>
<thead>
<tr>
<th>Income</th>
<th>Rental</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than or equal to 30% of HUD FMI</td>
<td>10,795</td>
<td>0</td>
</tr>
<tr>
<td>between 30% and 50% of HUD FMI</td>
<td>8,336</td>
<td>3,822</td>
</tr>
<tr>
<td>between 50% and 60% of HUD FMI</td>
<td>5,003</td>
<td>1,829</td>
</tr>
<tr>
<td>between 60% and 80% of HUD FMI</td>
<td>0</td>
<td>3,040</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24,134</strong></td>
<td><strong>8,691</strong></td>
</tr>
</tbody>
</table>

Percentage: 73.52 26.48

Source: MHP estimates based on The Next Decade of Housing in Minnesota report, the 2003-2005 MHFA Board Reports, and MHFA research staff calculations.

Minnesota’s Affordable Housing Need

Table I-6 summarizes Minnesota’s affordable housing need in its two basic components: housing assistance need and new construction need. It is important to reiterate that our estimate of the resources required to meet new construction need reflects the amount required to meet new construction need in its entirety. In contrast, our estimate of the resources required to meet hous-

37 These subsidies, which included down payment and mortgage assistance to low-income people who cannot otherwise afford new market units, were left out because they are not related to construction and their inclusion would have distorted the subsidies required for the construction of new owner units.
ing assistance need simply takes into account the resources required to meet the needs of a subset of all cost-burdened households in Minnesota. This estimate only reflects the costs of meeting the needs of Minnesotans whose needs are the most critical. The figures in Table I-6 should be considered with this limitation in mind.

It is also important to reiterate that the State of Minnesota cannot be expected to be fully responsible for meeting this need in its entirety. In the recent past, the state has on average contributed around 28 percent of all the grant equivalent contributions needed to produce all the projects funded by the MHFA.\(^{38}\) Assuming the share of the state’s contribution remains the same, the state would need to contribute approximately $160 million annually above existing level of appropriations to address Minnesota’s affordable housing need.

<table>
<thead>
<tr>
<th>Type of Need</th>
<th>Annual Amount Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Assistance Need</td>
<td>$396 million</td>
</tr>
<tr>
<td>New Construction Need</td>
<td>$172.7 million</td>
</tr>
<tr>
<td>Annual Net Additional Need</td>
<td>$568.7 million</td>
</tr>
</tbody>
</table>

Source: MHP calculations

---

\(^{38}\) The calculation is based on an analysis of the same set of single- and multi-family projects that were included in the calculation of construction subsidies above. The 28 percent figure is a weighted average of each year’s share of state contributions in overall grant-equivalent contributions from 2003 to 2005. The overall grant-equivalent contribution figures do not include syndication proceeds or amortizing debt finance.
Section II: Experience of Other States

The purpose of this section is to provide an overview of a number of states that either systematically allocate a significant amount of revenues to affordable housing or generate dedicated revenues for affordable housing in innovative ways. We then use this brief overview to draw some lessons for Minnesota.

The review of each state focuses on four issues. First, we identify the per capita funds raised for affordable housing in each state. Second, we analyze the revenue strategies each state uses to raise funds for affordable housing. Third, we examine the institutional structure through which affordable housing dollars are raised and distributed in each state. Finally, we review the political context of revenue raising in each state to highlight potential challenges and useful strategies.

We start with a comparison of a number of relevant states. Table II-1 ranks these states in terms of their per capita affordable housing revenues and identifies the share of dedicated and appropriated funds for each state (see next page).

Florida:

Among states with sizable populations, Florida leads the nation in terms of per capita revenues raised for affordable housing. In 2004, the state raised over $38 per capita. More than two-thirds of these funds came from dedicated revenue sources. Florida has had the privilege of having the largest state housing trust fund in the nation since the passage of the William E. Sadowski Affordable Housing Act in 1992.

The Act created a dedicated revenue source for affordable housing by raising Florida’s Documentary Stamp Tax (Real Estate Transfer Tax) and by committing an existing portion of this tax to affordable housing. The administrators of the fund distribute 70 percent of the fund’s revenues to local housing trust funds according to a population-based formula. The remaining 30 percent, which is administered by the Florida Housing Finance Agency, goes to the Florida State Housing Trust Fund to address state-wide affordable housing issues.

What made the nation’s largest state housing trust fund politically possible was a broad and unusual coalition of stakeholders. In addition to typical partners such as local governments and non-profit housing advocates, the coalition included non-traditional allies such as realtors.

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39 Although neither Iowa nor Wisconsin raises significant revenues for affordable housing, as neighbors of Minnesota, they were included in the table to provide a context for regional comparisons.


41 In addition to the original documentary stamp tax increase of $0.10 per $100 of the real estate value in 1992, another $0.10 was earmarked for the fund from the existing documentary stamp tax revenues starting in 1995. “State of Florida,” Canada Mortgage and Housing Corporation, available at http://www.cmhc-schl.gc.ca/en/imquaf/afho/afadv/file/hotrifu/case1.cfm (accessed 8/30/05).

The very success of the Florida Housing Trust Fund has ironically made it a political target as the state started to scramble for revenue sources. Political attempts to eliminate the dedication of the documentary stamp tax to affordable housing, which have been ongoing since 2002, culminated in the passage of a restrictive law in 2005. According to this law, if the amount of revenues generated for the trust fund exceeds $400 million, the remainder will be diverted to the general fund and environmental programs. The law also caps the amount of money available to the fund at

Table II-1: Affordable Housing Revenues in Selected States, 2004

<table>
<thead>
<tr>
<th>State</th>
<th>Appropriated Funds</th>
<th>Dedicated Revenue</th>
<th>Total</th>
<th>Population</th>
<th># of Cost-Burdened Residents</th>
<th>Per Cost-Burdened Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>87,896,836</td>
<td>8,243,003</td>
<td>96,139,839</td>
<td>1,211,537</td>
<td>119.572</td>
<td>79.35</td>
</tr>
<tr>
<td>Florida</td>
<td>192,892,623</td>
<td>418,200,000</td>
<td>611,092,623</td>
<td>15,982,378</td>
<td>2,001.693</td>
<td>38.24</td>
</tr>
<tr>
<td>Vermont</td>
<td>8,400,000</td>
<td>8,050,000</td>
<td>16,450,000</td>
<td>608,827</td>
<td>60.046</td>
<td>27.02</td>
</tr>
<tr>
<td>California</td>
<td>57,730,761</td>
<td>595,000,000</td>
<td>652,730,761</td>
<td>33,871,648</td>
<td>41,40,281</td>
<td>19.27</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>78,837,284</td>
<td>34,920,432</td>
<td>113,757,716</td>
<td>6,349,097</td>
<td>675,074</td>
<td>17.92</td>
</tr>
<tr>
<td>Delaware</td>
<td>11,095,000</td>
<td>1,700,000</td>
<td>12,795,000</td>
<td>783,600</td>
<td>63,759</td>
<td>16.33</td>
</tr>
<tr>
<td>Washington</td>
<td>50,000,000</td>
<td>8,795,837</td>
<td>58,795,837</td>
<td>5,894,121</td>
<td>689,629</td>
<td>9.98</td>
</tr>
<tr>
<td>Illinois</td>
<td>56,978,000</td>
<td>43,683,240</td>
<td>100,661,240</td>
<td>12,419,293</td>
<td>1,246,725</td>
<td>8.11</td>
</tr>
<tr>
<td>Minnesota</td>
<td>37,873,000</td>
<td>306,595</td>
<td>38,179,595</td>
<td>4,919,479</td>
<td>459,553</td>
<td>7.76</td>
</tr>
<tr>
<td>Main</td>
<td>2,860,000</td>
<td>6,532,540</td>
<td>9,392,540</td>
<td>1,274,923</td>
<td>114,343</td>
<td>7.37</td>
</tr>
<tr>
<td>Nebraska</td>
<td>6,000,000</td>
<td>4,566,379</td>
<td>10,566,379</td>
<td>1,711,263</td>
<td>137,094</td>
<td>6.17</td>
</tr>
<tr>
<td>Missouri</td>
<td>6,000,000</td>
<td>27,014,008</td>
<td>33,014,024</td>
<td>5,951,211</td>
<td>468,650</td>
<td>9.50</td>
</tr>
<tr>
<td>New Jersey</td>
<td>0</td>
<td>47,000,000</td>
<td>47,000,000</td>
<td>8,414,350</td>
<td>952,597</td>
<td>5.59</td>
</tr>
<tr>
<td>Ohio</td>
<td>0</td>
<td>42,385,658</td>
<td>42,385,658</td>
<td>11,335,140</td>
<td>1,024,132</td>
<td>3.73</td>
</tr>
<tr>
<td>South Carolina</td>
<td>0</td>
<td>13,076,447</td>
<td>13,076,447</td>
<td>4,012,012</td>
<td>380,066</td>
<td>3.26</td>
</tr>
<tr>
<td>Arizona</td>
<td>0</td>
<td>13,700,000</td>
<td>13,700,000</td>
<td>5,130,632</td>
<td>575,575</td>
<td>2.67</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>0</td>
<td>2,300,000</td>
<td>2,300,000</td>
<td>1,235,786</td>
<td>122,097</td>
<td>1.86</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>5,000,000</td>
<td>11,800,734</td>
<td>16,800,734</td>
<td>1,281,054</td>
<td>1,115,035</td>
<td>1.37</td>
</tr>
<tr>
<td>Iowa</td>
<td>800,000</td>
<td>0</td>
<td>800,000</td>
<td>2,926,324</td>
<td>219,946</td>
<td>0.27</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>350,000</td>
<td>0</td>
<td>350,000</td>
<td>5,363,675</td>
<td>500,048</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Per cost-burdened resident revenue amounts are also provided to compare the extent to which revenues raised address housing need in each state.

Source: The appropriations figures for all states except Iowa and Wisconsin came from the National Council of State Housing Agencies, 2004 Housing Finance Agency Fact Book, Table 12. Dedicated revenue information for all states, as well as appropriations figures for Iowa and Wisconsin, were obtained through MHP communications with state housing finance agencies. Cost burden data came from the 2004 ACS.

The very success of the Florida Housing Trust Fund has ironically made it a political target as the state started to scramble for revenue sources. Political attempts to eliminate the dedication of the documentary stamp tax to affordable housing, builders and environmentalist groups. The prevalence of builders and realtors in this coalition, for example, led to a focus on homeownership rather than rental subsidies. For a comprehensive analysis of the distributional consequences resulting from the compromises reached by the coalition partners, see Kristin Larsen, “Florida’s Housing Trust Fund: Addressing the State’s Affordable Housing Needs,” Journal of Land Use and Environmental Law, vol. 19, no. 2, Spring 2004, pp. 525-535.

For a history of these attempts which were fought by the realtors and builders, see Jaimie A. Ross, “Florida’s Housing Trust Funds: The Coalition That Made Them Happen and Makes Them Last,” Power Point Presentation available at http://www.enterprisefoundation.org/resources/Trainingconf/training/elearning/Downloads/Florida’s%20Housing%20Trust%20funds.ppt (accessed 8/30/05), part 3.
$243 million in FY 2007.\footnote{Edward Sifuentes, “Low-Income People Being Left Out as Housing Prices Soar,” South Florida Sun-Sentinel, June 7, 2005.}

In addition to its housing trust fund, the State of Florida also raises dedicated revenues for affordable housing through its Community Contribution Tax Credit program. The program provides a charitable tax credit incentive to encourage businesses to make donations toward community development and affordable housing projects. Eligible donors, including corporations paying corporate income tax or insurance premium tax and businesses and individuals paying sales taxes, are eligible to receive a tax credit equal to 50 percent of their donations.\footnote{Florida League of Cities, “2005 Legislative Final Report,” p. 12, available at http://www.flcities.com/legislative/files/5E72ABE8DAE44CFEA0108BC011361AC6.pdf (accessed 2/10/06).} In 2004, the program generated $10 million in revenues, 80 percent of which went into qualified affordable housing projects.\footnote{Academy Prep Center for Education, “Community Contribution Tax Credit Program,” available at http://www.academyprep.org/pdffiles/cctcp.pdf (accessed 02/11/06).}

\textbf{Washington:}

In 2004, Washington raised nearly $10 per capita for affordable housing. In Washington, both the state and local governments are entitled to raise their own revenues for affordable housing although the state government plays a more predominant role in funding affordable housing.

The Washington State Housing Trust Fund is the main source of public funding for low-income housing in the state. Capital bonds are the main source of revenue for the Trust Fund. Unlike other states where capital bonds are used to finance affordable housing on a temporary basis, in Washington capital bonds have been a steady source of revenue for affordable housing. Since the early 1990s, the state legislature has committed over $35 million in capital bonds each year, under the rationale that affordable housing is a key infrastructural component of economic development.\footnote{Burt C. Von Hoff, the Florida Office of Tourism, Trade and Economic Development, provided these figures (02/07/06).}

Although general obligation bonds continue to be the primary revenue source for the Trust Fund, the state also annually dedicates a portion of the county document recording fees to the Trust Fund. Enacted in 2002, House Bill 2060 increased the document recording fee statewide by $10 per instrument recorded. Counties are eligible to retain 60 percent of the document recording fees if they dedicate the revenues to housing affordable to people with 50 percent or less of the area median family income.\footnote{“Expanding Opportunity: New Resources to Meet California’s Housing Needs,” A PolicyLink Report for Housing California, Winter 2005, p. 24.} As of 2005, 13 of Washington’s 39 counties have adopted a document recording fee surcharge for affordable housing while 14 others are in the process of considering it.

The state’s Operating and Maintenance Fund (OMF), which is part of the Housing Trust Fund, receives the remaining 40 percent of these revenues.\footnote{“Document Recording Surcharge Fee for Low-Income Housing—HB 2060,” available at http://www.co.clark.wa.us/cdbg/Legislation_About.html (accessed 03/27/06).} The OMF is used to support the operations and maintenance costs of those projects that are affordable to ELI people and that have received capital dollars from the state Trust Fund.\footnote{Department of Community, Trade and Economic Development, State of Washington, “Housing Trust Fund Application for Operating and Maintenance Fund: Buy Down Projects,” available at http://www.wacounties.org/CHJ/CHJ-0604%20-%20Attachment%20DCTED%20Housing%20Trust%20Fund%20App.doc (accessed 03/27/06).}
2004, the OMF received approximately $8.8 million in document recording fee revenues.\(^{53}\)

Washington is also among the few states that enable jurisdictions within the state to establish housing trust funds. By a 1993 act, counties, cities, and towns in Washington are entitled by a vote of the public to “exceed statutory property tax limitations for the purpose of financing affordable housing for very low-income households.”\(^{54}\) The act further requires that localities match funds in order to obtain certain federal grants for affordable housing. Despite the opportunities provided by this act, however, to date only the city of Seattle has been successful in passing levies for affordable housing.\(^{55}\)

In 2005, the State of Washington further raised its document recording fee by $10 to create a Homeless Trust Fund.\(^{56}\) The fee increase is expected to raise $20 million annually. The law that authorized the increase allows county auditors to retain 2 percent for the collection of the fees. Sixty percent of the remainder stays in the counties going to a specific fund dedicated to eradicating homelessness, while 40 percent of the remainder goes to the state for deposit in the Homelessness Housing Account.

Housing advocates in Washington have been very successful in convincing the legislature that affordable housing is part of the infrastructure essential for economic growth and needs to be funded with dedicated revenue streams. The frequency of affordable housing campaigns at the local and state levels plays a key role in continuing to galvanize housing advocates and keeping affordable housing issues on the public agenda. Unconventional partnerships with builders and realtors, which made more effective communication strategies possible, have also been very influential in keeping the legislature and the public informed and focused on affordable housing needs.

**Massachusetts:**

Among states with sizable populations, Massachusetts ranks third in the nation after Florida and California in the amount of revenues it raises for affordable housing. In 2004, the state raised nearly $18 per capita for affordable housing. Over two-thirds of these revenues came from appropriations, while the rest came from dedicated sources.

In Massachusetts dedicated revenues for affordable housing come through three channels: the Affordable Housing Trust Fund (AHTF), the Community Preservation Act (CPA), and the Massachusetts State Housing Tax Credit program. The AHTF is Massachusetts’ statewide housing trust fund. The CPA is a multi-purpose legislation that enables local jurisdictions to collaborate with the state government for purposes of historic and open-space preservation as well as affordable housing. The Housing Tax Credit program is a statewide investment tax credit program analogous to the Federal low-income housing tax credit.

\(^{53}\) Personal communication with Jenny Greenlee, State of Washington, Department of Community, Trade and Economic Development (03/24/06).


\(^{55}\) Housing advocates in the city of Tacoma have been campaigning for a new levy for affordable housing. Unlike the city of Seattle, where voters approved four property tax levies for affordable housing since 1981, voters in Tacoma twice rejected such levies in the last five years. Similar efforts to pass a levy also failed in Spokane in the 1990s. See Todd Matthews, “Low-income housing concerns outlined at City Council study session: Early plans for an affordable housing levy discussed,” *Tacoma Daily Index*, February 16, 2005; Phuong Cat Le, “Seattle housing levy looking good,” *Seattle Post-Intelligencer*, September 18, 2002; Mary Brooks, “Housing Trust Fund Progress Report 2002: Local Responses to America’s Housing Needs,” p. 17.

The AHTF passed in 2000 with a dedicated portion of state income taxes as its main source of revenue. In 2003, the Massachusetts legislature replaced this dedicated revenue stream with revenues from the sale of government bonds. This change in the funding sources suggests that securing a dedicated revenue source in and of itself does not necessarily guarantee the continuity of a revenue stream for affordable housing. Although generally safer than annual appropriations, dedicated revenues can still be taken away by legislatures.

The CPA authorizes cities and towns to create a local Community Preservation Fund for the purpose of acquiring and preserving affordable housing, open space, and historic sites. If they choose to participate, each local jurisdiction may impose a property tax surcharge of up to three percent and dedicate those funds for these three purposes. To encourage participation, the state offers matching funds to jurisdictions that choose to create a local fund. The revenues for the matching funds come from a statewide Community Preservation Trust Fund, which is capitalized by a $20 document recording fee on deed and land filings.

A large number of organizations serving a wide range of purposes coalesced behind the Community Preservation Act to make this multi-purpose fund possible. The coalition includes historical societies, environmental groups, philanthropic foundations, local governments, and community development corporations in addition to affordable housing advocates.

The collaboration among these partners ensured that no single purpose consumes the resources of a local jurisdiction with the following distributional clause: “A minimum of 10 percent of the annual revenues of the fund must be used for each of the three core community concerns. The remaining 70 percent can be allocated for any combination of the allowed uses, or for land for recreational use.” This gives local communities the flexibility to determine their priorities, plan for the future, and allocate their funds in accordance with their specific needs. The law also guarantees that at least a minimum level of revenue would be dedicated to each purpose in participating cities or towns.

The third dedicated revenue source for affordable housing in Massachusetts is the state’s Housing Tax Credit program. The program, which annually generates $4 million for affordable housing, was recently extended until 2009. Unlike other

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57 For a detailed discussion of state low-income housing tax credit programs, see Investment Tax Credits in Section IV below.
62 For a list of all the organizations that participate in the Community Preservation Coalition, see http://www.communitypreservation.org/index.cfm (accessed 10/17/05).
64 Commonwealth of Massachusetts, Department of Housing and Community Development, “Low Income Housing Tax Credit Program: 2006 Qualified Allocation Plan,” January 2006, p. 9, available at http://www.mass.gov/dhcd/components/housdev/TXCrProg.pdf (accessed 02/11/06). Each $4 million tax credit is awarded for 5 years so the total amount of foregone revenue by the state equals $20 million annually. This means that the program’s extension for another 5 years will make available a total of $100 million in tax credits for affordable housing.
state housing investment tax credit programs, the Massachusetts Housing Tax Credit program has two unique features. As the administrator of the program, the Department of Housing and Community Development has been recently given the authority to implement a bond-funded loan program in lieu of state credit, if the extended credit fails to raise sufficiently high net revenues upon sale to investors. Moreover, while Massachusetts allocates its state LIHTC dollars to taxpayers who have been allocated federal credits much like in other states, it tends to distribute its state tax credits in lieu of a portion of the federal tax credits.

**Pennsylvania:**

Although Pennsylvania does not rank high in the amount of revenues raised for affordable housing, it has a unique revenue structure that provides a modest yet steady revenue stream. In 2004, Pennsylvania raised less than $2 per capita for affordable housing. More than two-thirds of these revenues came from dedicated sources while appropriated funds made up the rest.

In Pennsylvania, the state government is not directly involved in raising dedicated revenue sources for affordable housing. Instead, it has simply enabled Pennsylvania counties to create housing trust funds of their own with the 1992 Optional Affordable Housing Trust Fund Act (commonly known as Act 137).

Act 137 permits all Pennsylvania counties except for Philadelphia “to raise additional revenues to be used for affordable housing needs by increasing fees for recording mortgages and deeds up to 100 percent above the previous level.” The state government provides no fiscal incentives to encourage the foundation of a county trust. Despite the lack of incentives, 53 of the 66 eligible counties in Pennsylvania have established Housing Trust Funds as of July 2005.

At the end of the 2005 legislative session, Pennsylvania passed a new law extending the right to establish housing trust funds to Philadelphia. The new law, which is expected to generate $15 million a year, will allow Philadelphia to double its real estate document recording fees to raise revenues for a housing trust fund. The revenues expected to be raised through the Philadelphia trust fund will more than double the dedicated revenues from all other counties.

More than 100 organizations, collectively known as the Philadelphia Housing Trust Fund Coalition, helped establish the Philadelphia Housing Trust Fund. This coalition included a diverse range of groups including community development corporations, banks, organized labor, and builders as well as social service and affordable housing advocates.

**California:**

California raised over $19 per capita for affordable housing in 2004. Given that California is the largest state in the nation with a population of nearly 34 million, this is a very respectable sum.

The State of California has had a state housing trust fund since 1985. However, shortly after

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68 For a comprehensive list of the coalition members, see [http://www.pacdc.org/TrustFund/endorsements.htm](http://www.pacdc.org/TrustFund/endorsements.htm) (accessed 10/20/05).
its inception, the fund, which was capitalized through an Oil Lands Severance tax, lost all of its revenue sources. In addition to the state trust fund, California also has many local trust funds with a variety of dedicated revenue sources. The collective resources of these local trust funds, however, are far from adequate to address the severe affordable housing crisis that Californians face.

In addition to its state and local trust funds, the State of California also raises revenues for affordable housing through its state low-income housing tax credit program. Established in 1997, this program extended $70 million in state LIHTC dollars for affordable housing in 2004. Modeled after the Federal LIHTC, the program allocates state tax credits along with Federal tax credits. Among the handful of states that have similar investment tax credits for affordable housing, California has the most efficient state low-income housing tax credit program in the nation – raising 62 cents in revenue for affordable housing for each dollar of tax credit extended.

California, however, is most notable for its use of housing bonds in raising revenues for affordable housing. In some states, including Minnesota, the use of general obligation bonds for housing is constitutionally limited to the construction of publicly owned housing units. In contrast, no such restriction exists in California. As a result, the state has a history of raising a significant amount of resources for affordable housing by issuing general obligation bonds.

The use of general obligation bonds for housing has been a politically successful revenue strategy in California primarily because of the particular severity of the state’s affordable housing crisis. In fact, the latest housing bond of 2002 (widely known as Proposition 46), which generated $2.1 billion for 21 housing programs, has been the largest general obligation bond issue for housing in history. While bonds inject a significant amount of much needed resources into the housing sector, they are nevertheless one-time injections and not a steady source of revenue. Moreover, sustaining the coalitions that pass the bonding bills time after time can be difficult for housing advocates. The use of general obligation bonds requires public approval through ballots. Running statewide campaigns to get the public’s

72 For a detailed discussion of state low-income housing tax credit programs, see Investment Tax Credits in Section IV below.
73 “Expanding Opportunity: New Resources to Meet California’s Housing Needs,” A PolicyLink Report for Housing California, Winter 2005, pp. 10-11. The state’s history of using GO bonds for affordable housing stems primarily from the existence of state legislation that prohibits increasing taxes and committing them to a specific purpose without two thirds of the public voting in favor of the specific purpose.
74 According to most recent estimates, the state of California needs to produce 52,000 units each year just to keep up with growing demand. But more importantly, the state’s backlog of affordable inventory exceeds 650,000 units as of 2005. Hunter Johnson, “Trust fund needed for housing shortage,” June 3, 2005, The Business Press, CA, available at http://www.knowledgeplex.org/news/95318.html (accessed 8/26/05).
75 The one-time injection of $2.1 billion by Proposition 46 looks much less impressive when put into the context of the massive scale of existing housing need in California: the state would need to generate around $3.75 billion annually in capital investments for the next 20 years to provide adequate affordable housing for its residents. “Expanding Opportunity: New Resources to Meet California’s Housing Needs,” A PolicyLink Report for Housing California, Winter 2005, p. 10.
76 During the 1990s, for example, several ballot initiatives for housing were defeated in California. For details, see “Expanding Opportunity: New Resources to Meet California’s Housing Needs,” A PolicyLink Report for Housing California, Winter 2005, p. 11.
approval in passing dedicated bonds for housing in a large state like California is usually very costly and challenging.\textsuperscript{77} Having recognized the importance of finding a steady stream of dedicated revenue for affordable housing in California, housing advocates are in the midst of a campaign for the California Housing Trust Fund, a dedicated and protected revenue stream of approximately $1 billion annually.\textsuperscript{78}

**Illinois:**

For a state with nearly 13 million residents, Illinois raises a considerable amount of revenue for affordable housing thanks to the large variety of revenue sources in the state. In 2004, the State of Illinois raised over $8 per capita for affordable housing, and dedicated revenues made up over two-fifths of this amount.\textsuperscript{79}

Until recently, the state raised revenues for affordable housing primarily through the Illinois Affordable Housing Trust Fund.\textsuperscript{80} Revenues for the fund come from a real estate transfer fee of $1 per $1,000 on the sale price of real property. Half of the revenue generated by this fee is dedicated to the trust fund. In FY 2004, the fees dedicated to the Housing Trust Fund amounted to over $29 million.\textsuperscript{81}

A 2005 amendment to the state’s Affordable Housing Planning and Appeal Act recently gave local jurisdictions the authority to create local housing trust funds as well as community land trusts.\textsuperscript{82} The provision, however, does not generate or provide any revenue or otherwise offer any incentives for establishing a trust fund at the local level.\textsuperscript{83} The impact of this amendment in terms of generating additional funds for affordable housing is yet to be seen.

In addition to the state and local housing trust funds, most recently the state created a Rental Housing Support Program with a new dedicated revenue source. The program, which is funded through a $10 surcharge on the recording of real estate documents, is among the few long-term rental support programs in the nation.\textsuperscript{84} The program, which will be administered by the Illinois Housing Development Authority, is expected to raise around $30 million in its first year.

The State of Illinois has also been raising revenue

\textsuperscript{77} The costs and challenges do not, however, stop housing advocates from pursuing such campaigns since the rewards are considerable. SB 1024 by Senator Perata is the latest initiative in California that would raise $2 billion for affordable housing if it first passes the state legislature and then gains public approval in the 2006 ballot. For details of this initiative, see http://www.homes4ca.org/archives/2005/10/to_expand_the_v.php (accessed 10/28/05).

\textsuperscript{78} For more on the California Housing Trust Fund Campaign, see http://www.homes4ca.org/archives/2005/04/test_story_3.php (accessed 10/28/05).

\textsuperscript{79} States with comparable size populations raise a fraction of what Illinois raises for affordable housing. Ohio, for example, raises less than $4 per capita, while Pennsylvania raises less than $1.5 per capita for affordable housing.

\textsuperscript{80} The Illinois Housing Development Authority and the Affordable Housing Advisory Commission administer the Fund. The following description of the Fund is taken from the Fund’s website, available at http://www.ihda.org/viewpage.aspx?pageid=105 (accessed 11/16/05).

\textsuperscript{81} While the Illinois Affordable Housing Trust Fund generated $32 million in FY 2004, the Illinois Housing Development Authority committed only $29,350,740 of this amount to affordable housing projects. William Smirniotis, the Illinois Housing Development Authority, provided the figures (02/10/06).

\textsuperscript{82} The amendment also enables local jurisdictions to use zoning to promote the creation of affordable housing and to accept donations of money or land for affordable housing. For further information on the 2004 original act, see “Housing Action Illinois Celebrates Victories,” in Memo to Members: The Weekly Newsletter of the National Low Income Housing Coalition, vol. 10, issue no. 33, August 26, 2005, p. 5, available at http://www.nlhcc.org/mtm/mtm10-33.html#10 (accessed 11/17/2005).

\textsuperscript{83} Personal communication with Susannah Levine, Business and Professional People for the Public Interest (11/9/05).

for affordable housing through a charitable tax credit since 2001. The Affordable Housing Tax Credit program provides a $0.50 state income tax credit to corporations and individuals for each $1 they contribute to approved affordable housing projects.\(^{85}\) In FY 2005, the charitable tax credit program created $15.8 million for affordable housing.\(^{86}\) The program, which was initially scheduled to expire in 2005, was extended until 2011.\(^{87}\)

Matched only by their colleagues in Washington, housing advocates in Illinois have been exceptionally effective in transforming their quest for dedicated revenue sources into successful campaigns for reframing the public’s view of affordable housing. The strong public education component of their campaigns plays an important role in maintaining the visibility of affordable housing within the state’s political agenda.

Ironically, this visibility also makes the state’s dedicated revenues for affordable housing vulnerable to attacks as Illinois struggles to overcome its ongoing budget crisis. In fact, over the last three years nearly $13 million has been taken away from the Affordable Housing Trust Fund for a variety of reasons.\(^{88}\) Nevertheless, housing advocates continue to transform these challenges into opportunities for further educating the residents of Illinois about the state’s housing needs.

Ohio:

Ohio raises nearly $4 per capita for affordable housing. Although not high compared to other states with comparable population sizes, this figure is significant considering the fact that only 15 years ago Ohio had a constitutional amendment prohibiting the state government from lending or borrowing money for housing production.\(^{89}\) Ohio is one of the states that currently raise funds for affordable housing entirely through dedicated funds.

The state raises affordable housing dollars primarily through the Ohio Housing Trust Fund. The Fund was established in 1991 following the passage in 1990 of a constitutional amendment that declared housing “a proper and good public purpose.” Until 2003, the Fund relied on general state revenue, interest payments, and unclaimed funds as its main sources of revenue.\(^{90}\) In 2003, housing advocates were finally able to secure a portion of the state document recording fees as the dedicated revenue source for the Fund following a number of unsuccessful campaigns during the 1990s. In 2004, the Fund raised over $42 million in revenues for affordable housing.\(^{91}\)

Securing this dedicated revenue source was the result of a unique compromise. Housing advocates convinced the state legislature to double the docu-


\(^{86}\) Personal communication with Josie Kotsioris, Manager of the Affordable Housing Tax Credit Program, (12/15/05).


\(^{90}\) “Expanding Opportunity: New Resources to Meet California’s Housing Needs,” A PolicyLink Report for Housing California, Winter 2005, p. 23. The state of Ohio also uses up to $80 million a year to finance affordable housing through equity bridge loans and other development loans administered through the Ohio Housing Finance Agency. The agency borrows these funds at no cost from the State Unclaimed Funds administered by the Department of Commerce.

\(^{91}\) The fund spent $1,662,000 on administrative expenses, leaving $42,385,658 of its total of $44,470,658 available for affordable housing programs. See Ohio Housing Trust Fund Status Report, State Fiscal Year 2004.
ment recording fees and dedicate the revenues to the Housing Trust Fund in exchange for the annual general fund appropriations for housing. In effect, the housing advocates swapped appropriations of approximately $16 million a year for a dedicated revenue stream of up to $50 million a year.

The campaign for a dedicated revenue source succeeded despite significant opposition from some county officials and some lenders such as mortgage bankers.\textsuperscript{92} In the face of such opposition, housing advocates focused on demonstrating the economic benefits of affordable housing to the larger business community. This effort enabled them to win over influential business groups, such as large banks, developers, and the Ohio Association of Realtors, in addition to garnering the support of more than 900 organizations which included local officials, service organizations, labor groups, and civic leaders.

\textbf{Vermont:}

Vermont is one of the leading states in the nation in terms of the per capita revenues it raises for affordable housing. In 2004, Vermont raised over $27 per capita for affordable housing. Roughly half of these revenues came from a dedicated revenue source.

Vermont’s high per capita revenue for affordable housing is not only an artifact of the state's very small population.\textsuperscript{93} It is also the product of a highly effective state housing trust fund that has been securing dedicated revenues for affordable housing since 1987.

Known as the Vermont Housing and Conservation Board, the state housing trust fund was established with the dual purpose of creating affordable housing and conserving land.\textsuperscript{94} The Board receives a significant percent of its revenues from the state, which dedicates 50 percent of property transfer tax revenues to the trust fund.\textsuperscript{95}

The Board is extraordinary in its mandate of permanent affordability.\textsuperscript{96} This mandate, which limits the state’s involvement in housing subsidies to one-time gap assistance rather than continual commitment, makes the Board politically attractive.\textsuperscript{97} The Board fulfills its mandate


\textsuperscript{93} According to the 2000 Census, only Wyoming has a smaller population than Vermont in the nation. See Table GCT-T1R Population Estimates (Geographies Ranked by Estimate) available at http://factfinder.census.gov/servlet/GCTTable?_bm=y&geo_id=010000US&_box_head_nbr=GCT-T1-R-&ds_name=PEP_2004_EST&_lang=en&format=US-9S&_sse=on (accessed 12/26/05).


\textsuperscript{95} The Board also receives funds from Federal grant revenues among other sources. For a detailed breakdown of the Fund’s revenues, see the Board’s Annual Report to the General Assembly, January 2003, available at http://www.vhcb.org/pdfs/ar03a.pdf (accessed 12/26/05).

\textsuperscript{96} Mary Brooks, “Housing Trust Fund Progress Report 2002: Local Responses to America’s Housing Needs,” p. 63.

\textsuperscript{97} James M. Libby, Jr., the lawyer who drafted the Vermont Housing and Conservation Trust Fund Act, describes how permanent affordability became a defining characteristic of the trust fund in its inception: “Contrary to the approach of most federal agencies developing affordable housing, the Coalition’s proposal was to provide a non-regulatory approach to the preservation of farmland and affordable housing and one which would not require annual payments to maintain the viability of affordability of a project. Instead, the state of Vermont would provide loans and grants to cover the “gap” and insist that recipients develop mechanisms to assure that the projects would succeed without additional state revenues. Given the human misery and loss of public subsidies resulting from the prepayment of HUD/FmHA mortgages, this approach made sense to the Coalition and complemented the philosophy adopted by the legislature when it passed the condominium conversion law. Stewardship, a practice which is part of the fabric of the conservation movement, became part of affordable housing discussion. Actually, as these discussions continued, “perpetual affordability” and “no displacement” became synonymous with the trust fund. Housing advocates were listening to conservationists and heeding the lessons of a tattered federal housing policy,” James M. Libby, Jr., “The Vermont Housing and Conservation Trust Fund: A Unique Approach to Affordable Housing,” Clearinghouse Review, vol. 23, no. 10, February 1990, pp. 1275-1284, available at http://www.vhcb.org/article.html (accessed 12/26/05).
primarily by extending resources to community land trusts that have been rapidly proliferating in number since 1987.

An interest in permanent solutions—permanent housing affordability and long-term land conservation—has been the glue that unified the diverse coalition that created the Board. The coalition, known as the Housing and Conservation Coalition, includes land trusts, housing advocates, historical preservation groups, and environmentalists.

The secret to the Coalition’s success has been its unified stand in meeting the dual goals of affordable housing creation and land conservation simultaneously, and never compromising one for the sake of the other. The Coalition insisted on two requirements to make this unified stand a permanent reality. First, they insisted that the enabling statute for the Board stipulate balance in how the funds are spent and that the Board explicitly justify its decision if more than 70 percent of the funds go to either housing or conservation in any given year. Second, they ensured that the composition of the Board members reflect the interests of the Coalition in a balanced fashion.

In addition to its state housing trust fund, the State of Vermont also raises a limited amount of dedicated funds through its Affordable Housing Tax Credit. The state allocates $150,000 in state tax credits to projects which qualify for the Federal LIHTC program. Unlike its Federal counterpart, the Vermont Tax Credit does not require the purchaser of credits to have an ownership interest in the project. The credits, which can be claimed for five years against individual or corporate income tax, franchise tax or insurance premium tax, are transferable.

**Hawaii:**

Hawaii raises the highest per capita revenues for affordable housing in the nation. In 2004, Hawaii raised over $79 per capita for affordable housing, and more than 90 percent of these revenues came from appropriations. In addition to its considerable appropriations, the State of Hawaii raises revenue for affordable housing through two dedicated sources: the state’s housing trust fund and the state LIHTC program.

Established in 1992, Hawaii’s Rental Housing Trust Fund is administered by the Housing and Community Development Corporation of Hawaii. The state of Hawaii dedicates 25 percent of the real estate transfer (or conveyance) tax proceeds to the Trust Fund. The Fund provides gap financing in the form of grants and low-interest loans for the development, preservation, acquisition, and substantial rehabilitation of rental units. In 2004, the Fund raised $6.8 million in revenues for affordable rental housing.

In June 2005, the Hawaii legislature approved an omnibus housing bill that increased the proportion of the real estate transfer tax dedicated to the Rental Housing Trust Fund from 25 to 30 percent.

101 For further information on Vermont’s tax credits, see “Vermont Affordable Housing Tax Credit Fact Sheet,” available at http://www.vhfa.org/documents/developers/vt_tax_credit.pdf (accessed 02/27/06).
102 “Rental Housing Trust Fund,” available at http://www.hcdch.state.hi.us/rhtf.html (accessed 03/13/06).
103 Housing and Community Development Corporation of Hawaii provided the revenue figure for 2004.
percent. The bill included a measure to increase the conveyance rate for properties with sales prices over $600,000. It doubled the real estate transfer tax to $0.20 per $100 for properties selling between $600,000 and $1 million, and tripled it to $0.30 per $100 for all properties above $1 million. The change came as a result of the efforts of a coalition of housing advocates and environmentalists. These efforts prevailed over the opposition of the Hawaii Association of Realtors, who objected to the use of real estate transfer tax as a source of revenue for the Trust Fund.

In addition to its state housing trust fund, the State of Hawaii also raises dedicated funds through its state LIHTC program. The program limits the funds it allocates to 30 percent of the Federal LIHTC amount received by a project. In 2004, the program awarded over $1.3 million in state tax credits.

**Lessons for Minnesota**

*The Coalition Matters*

The diverse experience of many states in securing dedicated revenue streams for affordable housing reveals one important lesson for Minnesota: the make up of the coalition advocating for a dedicated revenue source for affordable housing is of utmost importance. The composition of the coalition not only impacts the political clout of the coalition but also affects the distribution of the dedicated revenue streams. In Florida, for example, the prevalence of realtors and builders in this coalition led to a focus on homeownership rather than rental subsidies.

It is important to balance the interests of the business community with the broader interests of the public at large and to include in the coalition organizations with a wide variety of viewpoints. Examples of such organizations include advocates serving underserved groups, faith-based organizations, and non-profit developers among others.

Housing advocates should, however, try to collaborate with all types of groups. This could help them raise public awareness about housing needs and increase the visibility of affordable housing as a critical political issue in the public agenda. To expand the political clout of their coalitions, they can, for instance, reach out to business groups by appealing to their specific economic interests.

A dedicated revenue stream for affordable housing can create new construction and homeownership programs that generate new revenue streams and markets for the builders and realtors. Housing advocates should highlight the fact that a dedicated revenue stream for affordable housing could be beneficial for builders and realtors from an economic point of view.

Financial institutions are also potential beneficiaries of dedicated funds for affordable housing. These funds increase the state’s commitment to affordable housing programs and mortgages, making the affordable housing market sounder for financial institutions. These funds can also help financial institutions meet their federal Community Reinvestment Act requirements.

Housing advocates should also approach advocates from other fields to build creative alliances

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for symbiotic purposes, rather than viewing them as competitors for limited resources. Housing is an issue that cuts across policy silos and has implications in a number of fields.

Evidence from Florida, for example, demonstrates that dedicated revenue funds can, if distributed with that intent, significantly boost the home ownership rates among communities of color.107 Housing advocates should emphasize the racial equity impacts of housing trust funds to reach out to civil rights constituencies.

Environmentalists have also been allies of housing advocates in securing dedicated revenue streams in a number of states including Florida, Vermont, Massachusetts, and Connecticut. Multi-purpose funds that serve a number of social needs including affordable housing have usually been the strategy for these cross-sector alliances. Housing advocates in Minnesota could reach out to environmentalists, historical preservationists, and smart growth advocates in seeking support for a dedicated revenue source.

Creative alliances with these groups could not only increase the political clout of a coalition but could also be useful in developing new approaches to problems of affordability.

In Vermont, for instance, the land conservationists, with their emphasis on stewardship, played an important role in making housing advocates think in terms of sustainable affordability. Influenced by this idea, housing advocates in Vermont pushed to make “perpetual affordability” a key component of the state’s housing trust fund. The Fund, with its mandate of permanent affordability, has in turn been instrumental in building further capacity by encouraging the establishment of successful community land trusts that continue to serve the residents of Vermont.

How to Raise the Dedicated Revenues?

This brief review of the experience of other states shows that there is no single answer as to how to best raise dedicated revenues for affordable housing. Some states, such as Florida and Ohio, focus on a single source of revenue that generates large sums for affordable housing. Others, such as Washington and Illinois, use a number of dedicated revenue sources that each generate more moderate sums but collectively produce a significant amount of funding for affordable housing.

The advantage of a single revenue source over multiple dedicated revenue sources is that it could be easier to pass through the legislature. It is harder to justify multiple dedicated revenue sources for affordable housing, particularly if the proposals for the dedications are advanced simultaneously. The disadvantage of a single dedicated revenue source, however, is that it is more likely to be the target of political attacks, especially if it raises a significant amount.

Using multiple dedicated revenue sources can help a state generate significant resources for affordable housing in a way that makes it harder to lose the funding in times of budget cuts. The modest amounts of funds generated by each dedicated revenue source may reduce the incentive to take away each revenue source.

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Section III:
Minnesota’s Affordable Housing Legacy

The purpose of this section is to identify state and local government revenues raised for affordable housing in Minnesota and to review past legislative efforts to raise a dedicated revenue source for affordable housing in the state.

State Resources for Affordable Housing

State revenues for affordable housing come from three state agencies in Minnesota: the Minnesota Housing Finance Agency (MHFA), the Department of Human Services (DHS), and the Metropolitan Council.108

The Minnesota Housing Finance Agency (MHFA)

As the state’s housing finance agency, the MHFA provides funding for a variety of housing needs. For 2005, the state appropriated $34.9 million to the agency—an amount that constituted about 8 percent of the agency’s total budget.109 In addition to state appropriations, the majority of the MHFA’s budget comes from mortgage revenue bond issues, federal funding, and other resources generated by the agency itself.

Chart III-1: Distribution of MHFA Funding for Housing Assistance, FY 2005

![Chart III-1: Distribution of MHFA Funding for Housing Assistance, FY 2005]

The agency used the $34.9 million appropriated by the state for a variety of purposes including development and redevelopment, supportive housing, homeownership loans, preservation of federally assisted housing, and resident and organization support.110 Chart III-1 breaks down the amounts allocated for each purpose in 2005.

108 The Metropolitan Council is not exactly a state agency but a “component unit of the state.” We included the Metropolitan Council as a state agency in this report because it is not strictly a local government but a regional entity that operates within the seven-county metropolitan area. Moreover, the Council receives appropriations from the Minnesota state legislature very much like other state agencies.


110 Development and redevelopment resources fund new construction and rehabilitation of rental and ownership housing. Supportive housing funds are allocated for housing development and rental assistance for very low-income families, many of whom experience other barriers to independent living. Homeownership loans fund home purchase and home improvement loans. Funds also go to the preservation of federally assisted housing that may be lost as affordable housing either because owners opt out of federal programs or because of physical deterioration. Resident and organization support involves the provision of operating funds for organizations that develop affordable housing, offer homebuyer education and foreclosure prevention assistance or coordinate regional planning efforts. “MHFA Funding for Housing Assistance,” Minnesota House of Representatives House Research, January 2005, available at http://www.house.leg.state.mn.us/hrd/issinfo/shsgasst.htm (accessed 12/19/05).
The Minnesota Housing Trust Fund

The MHFA is also the agency that administers the Minnesota Housing Trust Fund—the state's primary appropriations program serving households with incomes less than or equal to 30 percent of the AMI. The legislature established the Housing Trust Fund in 1988 to support the development of affordable housing for the state's low-income residents.111 Until 2001, the resources of the fund were only used for the capital funding of new construction as well as the rehabilitation of existing units. In 2001, the Legislature expanded the scope of activities eligible for support by the Fund. The Fund currently extends resources for rental assistance and operating support in addition to capital funds.112

The Fund receives money from three distinct sources, two of which are dedicated revenue streams: interest earnings on real estate broker trust accounts, interest accrued on revenue bond

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Appropriations</th>
<th>Real Estate Brokerage Account Earnings</th>
<th>Forfeited Bond Issuance Application Fees &amp; Earnings</th>
<th>5% of Earnings in Prior Two Columns to Capacity Building</th>
<th>Combined Funding from All Three Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005*</td>
<td>4,305,000</td>
<td>300,503</td>
<td>59,000</td>
<td>(17,975)</td>
<td>4,664,503</td>
</tr>
<tr>
<td>2004</td>
<td>4,305,000</td>
<td>221,305</td>
<td>101,427</td>
<td>(16,137)</td>
<td>4,627,732</td>
</tr>
<tr>
<td>2003</td>
<td>4,506,664</td>
<td>274,928</td>
<td>133,858</td>
<td>(20,439)</td>
<td>4,915,450</td>
</tr>
<tr>
<td>2002</td>
<td>4,623,000</td>
<td>370,564</td>
<td>57,740</td>
<td>(21,415)</td>
<td>5,051,304</td>
</tr>
<tr>
<td>2001</td>
<td>1,798,000</td>
<td>421,598</td>
<td>50,646</td>
<td>(23,612)</td>
<td>2,270,244</td>
</tr>
<tr>
<td>2000</td>
<td>1,798,000</td>
<td>376,645</td>
<td>22,493</td>
<td>(19,957)</td>
<td>2,197,138</td>
</tr>
<tr>
<td>1999</td>
<td>1,798,000</td>
<td>412,398</td>
<td>99,428</td>
<td>(25,591)</td>
<td>2,309,826</td>
</tr>
<tr>
<td>1998</td>
<td>1,798,000</td>
<td>419,028</td>
<td>69,711</td>
<td>(24,437)</td>
<td>2,286,739</td>
</tr>
<tr>
<td>1997</td>
<td>1,798,000</td>
<td>399,527</td>
<td>58,988</td>
<td>(22,926)</td>
<td>2,256,515</td>
</tr>
<tr>
<td>1996</td>
<td>1,798,000</td>
<td>386,677</td>
<td>90,850</td>
<td>(23,876)</td>
<td>2,275,527</td>
</tr>
<tr>
<td>1995</td>
<td>1,798,000</td>
<td>551,485</td>
<td>281,258</td>
<td>(41,637)</td>
<td>2,630,743</td>
</tr>
<tr>
<td>1994</td>
<td>1,798,000</td>
<td>400,550</td>
<td>42,824</td>
<td>(22,169)</td>
<td>2,241,374</td>
</tr>
<tr>
<td>1993</td>
<td>1,800,000</td>
<td>324,139</td>
<td>4,370</td>
<td>(16,425)</td>
<td>2,128,509</td>
</tr>
<tr>
<td>1992</td>
<td>800,000</td>
<td>773,845</td>
<td>70,926</td>
<td>(42,239)</td>
<td>1,644,771</td>
</tr>
<tr>
<td>1991</td>
<td>0</td>
<td>875,347</td>
<td>223,111</td>
<td>(54,923)</td>
<td>1,098,458</td>
</tr>
<tr>
<td>1990</td>
<td>0</td>
<td>972,771</td>
<td>0</td>
<td>(48,639)</td>
<td>972,771</td>
</tr>
<tr>
<td>1989</td>
<td>0</td>
<td>482,051</td>
<td>0</td>
<td>(24,103)</td>
<td>482,051</td>
</tr>
<tr>
<td>1988</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34,723,664</strong></td>
<td><strong>7,662,858</strong></td>
<td><strong>1,307,630</strong></td>
<td><strong>(448,525)</strong></td>
<td><strong>44,053,655</strong></td>
</tr>
</tbody>
</table>

*Real Estate Brokerage Account Earnings and Forfeited Bond Issuance Application Fees and Earnings for fiscal year 2005 are only through March 21, 2005.

Source: Minnesota Housing Finance Agency


application fees and forfeited fees, and state appropriated funds. The dedicated revenues, which used to be the only revenue source for the Fund until 1992, constituted less than 7 percent of the Fund’s total resources in 2004. Table III-1 summarizes how the composition of the Fund’s revenue sources has changed since its inception in 1988.113

**The Department of Human Services (DHS)**

The DHS provides funding for affordable housing through a variety of programs. These programs include basic income supplements, the provision of supportive housing services as well as the funding of institutional settings where service delivery and housing are integrated. Although only a fraction of the DHS resources goes into housing, the funds contributed to housing by the DHS exceed the amount appropriated to the MHFA by a significant amount. Table III-2 shows the breakdown of housing and housing-related service dollars by program.114

**The Metropolitan Council**

The Metropolitan Council, the regional planning agency for the Twin Cities metropolitan area, is another state agency that provides funding for affordable housing in Minnesota. The Council provides money for housing primarily through its Livable Communities Program. The Livable Communities Program is not exclusively an affordable housing program but instead a community development program that prioritizes affordable housing.115

<table>
<thead>
<tr>
<th>Table III-2: Housing-Related Programs Funded by Minnesota DHS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Group Residential Housing</td>
</tr>
<tr>
<td>GRH Metro Demonstration Program</td>
</tr>
<tr>
<td>Supportive Housing and Managed Care Pilot</td>
</tr>
<tr>
<td>Emergency Services Program (ESP)</td>
</tr>
<tr>
<td>Transitional Housing Program (THP)</td>
</tr>
<tr>
<td>Crisis Housing</td>
</tr>
<tr>
<td>Mental Health Initiative/Integrated Fund</td>
</tr>
<tr>
<td>Projects for the Homeless (PATH) (State portion)</td>
</tr>
<tr>
<td>Rule 36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: MHP communication with staff responsible for each program.

Community participation in the program is voluntary and incentive-based. However, municipalities that elect to participate in the program must negotiate housing goals with the Metropolitan Council.116 The program disperses funding for housing through three separate accounts: the Livable Communities Demonstration Account (LCDA), the Local Housing Incentive Account (LHIA), and the Inclusionary Housing Account (IHA).

113 Amy Long from the Minnesota Housing Finance Agency provided this table.
114 The table excludes basic income supplement programs where funds that could be used for housing are awarded to the individual directly. We exclude these programs because funds are left to the discretion of the individual and might go toward meeting other expenses other than housing. The figure for the Group Residential Housing Program includes rent and grocery costs incurred by program participants. The DHS does not track the rental expenses separately. Personal communication with Duane Elg, the Department of Human Services, (12/21/05).
116 Although participation involves the submission of housing development plans by municipalities, the Metropolitan Council does not have the authority to reject inadequate housing action plans and these plans are not legally binding documents. For a more detailed evaluation of the effectiveness of the program, see Office of the Legislative Auditor, “Program Evaluation Report: Affordable Housing,” Report Number: 01-03, January 2001, pp. 75-83.
The LCDA supports development and redevelopment projects that exemplify efficient and cost-effective use of land and infrastructure, and promote development patterns that connect housing, jobs, and services. The LHIA produces and preserves affordable housing choices for households with low to moderate incomes. Communities are required to match the grants from this account dollar for dollar. Both the LCDA and the LHIA are funded by property taxes levied by the Metropolitan Council.

In contrast, the IHA was funded by a one-time legislative appropriation. The IHA funded projects that innovatively reduced housing construction costs and that included units affordable to households with incomes at or below 80 percent of the AMI. The IHA, which funded its last two projects in 2004, has run out of funds and has effectively become defunct. Table III-3 demonstrates the amounts granted through these accounts in 2004.

Together these three state agencies allocated nearly $140 million in 2004 in appropriations and dedicated revenues for housing and housing related services in Minnesota. Nearly 93 percent of these resources came through appropriations, while only 7 percent came from dedicated revenue sources including regional property tax levies, real estate brokerage earnings, and forfeited bond issuance application fees and earnings. Table III-4 details the dedicated and appropriated revenue sources for each agency.

Compared to state revenues dedicated to various other social needs, dedicated state revenues for affordable housing in Minnesota are fairly insignificant. For instance, Minnesota’s dedicated state

<table>
<thead>
<tr>
<th>Programs</th>
<th>Dedicated Revenue</th>
<th>Appropriated Revenue</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livable Communities Demonstration Account</td>
<td>7,700,000</td>
<td>0</td>
<td>7,700,000</td>
</tr>
<tr>
<td>Local Housing Incentives Account*</td>
<td>1,888,900</td>
<td>0</td>
<td>1,888,900</td>
</tr>
<tr>
<td>Inclusionary Housing Account</td>
<td>0</td>
<td>378,700</td>
<td>378,700</td>
</tr>
<tr>
<td>Total</td>
<td>$9,588,900</td>
<td>$378,700</td>
<td>$9,967,600</td>
</tr>
</tbody>
</table>

* $500,000 in property tax levies transferred from the LCDA and $1 million from the Metropolitan Council’s general fund (which also comes through a levy) capitalize the LHIA.

Source: Metropolitan Council

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120 The LCDA’s Direct Housing Expenditures but also the resources it extends for housing related infrastructure construction. The Council does not keep separate track of the funds spent strictly for affordable housing since affordability is not a criterion for funding. Personal communication with Jan Gustafson, the Metropolitan Council, (12/21/05). While some of the rehabilitated units funded by the Metropolitan Council are not affordable, a majority of the housing units the Council finances qualify as affordable units.
121 The latest year for which data is available from all three agencies is 2004.
122 Note that the MHFA also allocated $26.4 million of its agency-generated resources in the form of grant-equivalent funds in 2004. For a detailed explanation of where these funds come from and how they are distributed, see Chip Halbach, “The 2006-07 Affordable Housing Plan and Allocation of MHFA Generated Resources,” March, 2006.
revenues for transportation in 2004 amounted to $354 per capita. In the same year, the state spent over $20 per capita on the environment out of dedicated (or statutory) state revenues. In contrast, the amount of dedicated state revenues for affordable housing in 2004 was a mere $2 per capita (Table III-5). If one takes the state’s per capita dedicated revenue spending on any issue as an indicator of its long-term commitment to that issue, these figures make it clear that the State of Minnesota prioritizes other social needs over affordable housing by a large margin.

Local Resources for Affordable Housing

In addition to the resources raised by the three state agencies mentioned above, some local jurisdictions in Minnesota contribute resources to affordable housing through their housing trust funds. Minnesota has local housing trust funds in three counties and three cities.

Hennepin County Affordable Housing Incentive Fund

Hennepin County created its Affordable Housing Incentive Fund (AHIF) in 2000 to provide last resort gap funding for affordable housing for low-income people. The Fund provides resources for a variety of affordable housing projects that serve low-income families, youth, seniors, homeless families and adults, as well as people with disabilities.\footnote{123 http://www.hennepin.us/vgn/portal/internet/hcdetailmaster/0,2300,1273_1746_133178458,00.htm (accessed 12/22/05).} In 2005, the Fund granted a total of $4 million to 16 affordable housing projects. $3.2 million of this money came from proceeds from a 2000 land sale, while the balance came from tax-exempt bond sales.\footnote{124 Personal communication with Carol Steiner, Hennepin County, (11/16/05).}

Ramsey County Housing Endowment Fund

The Ramsey County Housing Endowment Fund was established in 2000 with the goal of increasing the supply of affordable and supportive housing for people with incomes at or below 50 percent of the AMI. The Fund was financed by a $5 million contribution from the general fund reserves as well as a $2 million matching grant from The McKnight Foundation.\footnote{125 “MICAH Ramsey County Chapter Seeks Dedicated Funding for Housing Endowment Fund,” Housing Trust Fund Project News, Summer 2004, p. 1, available at http://www.communitychange.org/shared/publications/downloads/HTFSummer04.pdf (accessed 12/22/05).} Having extended its limited funds as grants, the Fund had no resources in 2005. Housing advocates in Ramsey County are working on building a coalition to create a

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Table III-4: State Revenues for Housing, 2004

<table>
<thead>
<tr>
<th>Agency</th>
<th>Appropriations</th>
<th>Dedicated Revenues</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>MHFA</td>
<td>34,900,000</td>
<td>306,595</td>
<td>35,206,595</td>
</tr>
<tr>
<td>DHS</td>
<td>93,823,952</td>
<td>0</td>
<td>93,823,952</td>
</tr>
<tr>
<td>Metropolitan Council</td>
<td>378,700</td>
<td>9,588,900</td>
<td>9,967,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$129,102,652</strong></td>
<td><strong>$9,895,495</strong></td>
<td><strong>$138,998,147</strong></td>
</tr>
</tbody>
</table>

Source: MHP calculations based on information provided by agency staff.

Table III-5: Dedicated State Revenues for Selected Social Needs, 2004

<table>
<thead>
<tr>
<th></th>
<th>Dedicated State Revenues</th>
<th>Dedicated State Revenues Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$1,740,000,000</td>
<td>$353.70</td>
</tr>
<tr>
<td>Environment</td>
<td>$100,287,000</td>
<td>$20.39</td>
</tr>
<tr>
<td>Affordable Housing</td>
<td>$9,895,495</td>
<td>$2.01</td>
</tr>
</tbody>
</table>

Source: US Census 2000 and MHP calculations based on data provided by Minnesota House of Representatives Fiscal Analysis Department.

Dedicated revenue stream for the Fund.\textsuperscript{126}

\textit{Dakota County Housing Opportunity Enhancement (HOPE) Fund}

Dakota County started the HOPE program in 2002 to provide loans for affordable housing creation and preservation for households with incomes less than 60 percent of the AMI.\textsuperscript{127} Administered by the Dakota County Community Development Agency (DCCDA) and established as a funding source of last resort, the program has a 2:1 match requirement of external project funding to HOPE dollars. Between FY 2002 and FY 2005, the program received a commitment of $3 million from Dakota County and a commitment of $1.5 million from the Family Housing Fund in addition to receiving property tax levies from the DCCDA. Starting with FY 2005, the program stopped receiving funds from Dakota County and the Family Housing Fund and has since been solely financed by the DCCDA property tax levies.\textsuperscript{128} In FY 2005, the program provided approximately $2.9 million for affordable housing in the county.\textsuperscript{129}

\textit{Saint Paul Sales Tax Revitalization (STAR) Program}

St. Paul's STAR program is not strictly an affordable housing trust fund but rather a community revitalization program with significant emphasis on affordable housing. The program has two components—the Cultural and Neighborhood STAR programs—and housing developments are funded through the Neighborhood STAR program. The proceeds from a local sales tax levy capitalize the STAR program, and are distributed equally between the Cultural and Neighborhood STAR components. In 2005, the program provided $3,808,000 in funds for housing affordable to residents with incomes equal to or less than 60 percent of the AMI.\textsuperscript{130}

\textit{Minneapolis Affordable Housing Trust Fund}

The Minneapolis City Council adopted the Affordable Housing Trust Fund (AHTF) resolution in January 2003.\textsuperscript{131} Prior to the creation of the program, the City was duplicating some of the housing services offered by the MHFA and bank financing programs. The city of Minneapolis established the Affordable Housing Trust Fund program not only to better streamline its housing


\textsuperscript{127} “Dakota County Hope Fund,” available at http://www.co.dakota.mn.us/board/hope.htm (accessed 05/12/06).

\textsuperscript{128} Personal communication with Andrea Brennan, Dakota County CDA, (05/12/06).

\textsuperscript{129} “Dakota County Hope Fund Evaluation,” November 30, 2004, p. 2, available at http://www.co.dakota.mn.us/board/HOPE%20Eval%20FINAL.pdf (accessed 05/12/06). Approximately $1.1 million of this amount came from DCCDA property tax levies. Personal communication with Andrea Brennan, Dakota County CDA, (05/12/06). Dakota County Fund Balance contributed around $1 million to the Hope Fund in FY 2005. The Fund Balance comes from prior year budget savings. Although a small part of the Fund balance might come from state or Federal revenues, we were unable to determine the exact amount. As a result, we categorized this amount as dedicated local contribution. Personal communication with Sandy Christensen, Dakota County Financial Services, (05/19/06).

\textsuperscript{130} Author's calculations based on the data provided by Gary Peltier, The City of St. Paul, Development of Planning and Economic Development, (9/22/05 and 11/9/05). From 2002 to 2005, the City of St. Paul has committed/expended $10,958,686 in funds to projects and programs that include affordable housing. Eighty-six percent of the units created by these projects and programs were affordable to people with incomes equal to or less than 60 percent of the AMI. In addition, $10 million in STAR program funds are committed to the Land Assembly Program which acquires property for housing developments such as the Victoria Park Project. 20 percent of the units in this program will be affordable to people with incomes equal to or less than 50 percent of the AMI. Since multi-year projects make it hard to identify the annual amount the city commits to affordable housing, annual averages were calculated by dividing the total amounts committed since 2002 by three.

services but also to demonstrate its commitment to expanding the housing options of its lower-income residents.

The AHTF program currently provides gap financing for affordable and mixed-income rental housing, housing production and preservation projects. The program is funded by a number of sources including Federal funds such as HOME, CDBG, Emergency Shelter Grants and Empowerment Zone allocations as well as program income and local funds. In 2005, the program provided $10.3 million in funds for affordable housing. Only 28 percent of these funds came from local dedicated revenues while the remaining 72 percent came from Federal resources.

Duluth Housing Investment Fund

In April 2005, the Duluth City Council approved the creation of the Duluth Housing Investment Fund. The Fund was established to take advantage of the HOPE VI program matching funds. For five years, the city of Duluth will dedicate an annual amount of $600,000 in casino revenues to develop affordable and supportive housing and to revitalize the city’s aging housing stock. One half of this amount is reserved for housing affordable to people who make no more than 50 percent of the AMI.

Table III-6: Local Dedicated Revenue Sources for Affordable Housing, 2005

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Dedicated Revenue Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hennepin County AHIF</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Dakota County Hope Fund</td>
<td>2,105,266</td>
</tr>
<tr>
<td>Minneapolis Housing Trust Fund</td>
<td>2,874,129</td>
</tr>
<tr>
<td>Duluth Housing Trust Fund</td>
<td>600,000</td>
</tr>
<tr>
<td>Saint Paul STAR Program</td>
<td>3,808,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,387,395</strong></td>
</tr>
</tbody>
</table>

Source: MHP calculations based on data provided by program staff.

Past Legislative Efforts to Establish a Secure Revenue Stream for Affordable Housing

In the last decade, housing advocates in Minnesota participated in a number of legislative efforts to establish a dedicated revenue stream for affordable housing. While a majority of these efforts did not produce the intended results, it is important to review these efforts for two reasons. First, these past efforts highlight the repertoire of strategies tried out by housing advocates to establish a revenue stream dedicated to housing. Second, a systematic review of these past legislative efforts is useful for identifying the state legislators who generated innovative ideas to address the state’s affordable housing need.

133 Personal communication with Cynthia Lee, Manager, Multifamily Housing Development, Minneapolis CPED, (8/16/2005). The local funds include city levies, Hilton Legacy Funds, and housing revenue bond fees.
134 Cynthia Lee and Scott Ehrenberg, Multifamily Housing Development, Minneapolis CPED, provided the data for the Minneapolis Affordable Housing Trust Fund program, (02/14/06).
135 Author’s calculations from the data provided by Cynthia Lee and Scott Ehrenberg, Multifamily Housing Development, Minneapolis CPED.
138 Personal communication with Pam Kramer, Duluth Local Initiatives Support Corporation, (06/12/06).
139 Our review starts with the legislative efforts of 1996 because information regarding prior dates was not readily available.

In 1996, Representative Andy Dawkins authored house bill H. F. 2268 with Senator Steve Kelley as the chief author of the accompanying senate bill S. F. 1991. The bill proposed to allocate $2.5 million in state bonds for the publicly owned Neighborhood Land Trust Program. This bill, which prioritized new construction rather than existing housing subsidies, was successfully passed.


In 1996, Representative Andy Dawkins and Senator Steve Kelley authored H. F. 2909 and S. F. 2537, respectively, to amend the Minnesota Constitution. The bill proposed a constitutional amendment to authorize the issuance of state bonds for the purpose of building and rehabilitating housing within the state. The bill intended to extend to those who build and rehabilitate houses the same benefits farmers receive under the Rural Finance Authority Loan Program, which uses state bonds to extend discounted loans to farmers. While the bill moved further in committees, they did not end up on the 1996 ballot.


In 1998, Senator Tracy Beckman and Representative Karen Clark authored S.F. 2327 and H.F. 2344, respectively. The bill proposed to provide a tax credit to employers making cash contributions for employee housing. The bill authorized a total annual allocation of $10 million in tax credits, contingent on the MHFA’s receipt of an equal amount from non-state resources. The bill was referred to the Tax Conference Committee, where the tax credits were substituted with matching grants of up to $250,000 for employer contributions to funds for affordable housing in the State of Minnesota. The bill included a $250,000 appropriation from the general fund to the MHFA’s Housing Development Fund for FY 1999, and a $1.6 million appropriation for the following biennium. The bill was passed in its altered form.

S. F. 493 and H. F. 584 (1999): State Low-Income Housing Tax Credit

In 1999, Senator Ellen Anderson authored senate bill S. F. 493, while Representative Andy Dawkins was the author of the companion house bill, H.F. 584. The bill proposed to create a state income tax credit for low-income housing equal in amount to the Federal low-income housing tax credits. The Department of Revenue estimated that if passed the bill would raise around $30 million between FY 2000 and FY 2003. The bill, which also prioritized new construction rather than existing housing subsidies, did not pass.

S. F. 923 (1999): Mortgage Registry and Deed Taxes

In 1999, Senator Sandy Pappas authored senate bill S. F. 923 without an accompanying house bill. The bill proposed to appropriate revenues derived from mortgage and deed taxes to the MHFA. Senator Anderson offered an amendment that set the amount of mortgage and deed tax revenues collected by the state in FY 1997 as the base for the general fund, with a provision to credit any amount exceeding this base to the Community Rehabilitation Account in the Housing Development Fund. This bill, had it been enacted in FY 1998, would have raised around $26 million in revenues. While the amendment was adopted, the amended bill failed to pass.

S. F. 1222 (1999): Tobacco Settlement Funds

In 1999, Senator Ellen Anderson authored senate bill S. F. 1222 without an accompanying house bill. The bill proposed to create an affordable housing fund in the treasury by crediting 30 percent of the proceeds or approximately $20 million from the state tobacco settlement from FY1999 to FY 2003. Although the bill was initially approved and sent to the Economic Development and Budget Division, it failed to pass.143

S. F. 1855 (1999): Mortgage Registry and Deed Taxes

In 1999, Senator Steve Novak authored senate bill S. F. 1855 which proposed to create a local government housing program to be administered by the Department of Trade and Economic Development. The bill proposed that if the mortgage and deed tax revenue collections in any year exceeded the FY 1997 baseline collections, the amount exceeding the baseline should be credited to the local government housing program. The bill stipulated that the funds should be distributed equally between entitlement and non-entitlement jurisdictions as defined by the federal CDBG program and that within the non-entitlement jurisdictions the funds should be distributed based on population. The bill, which intended to provide the local governments with flexibility in addressing housing issues, was first referred to the Jobs, Energy and Community Development Committee. This committee re-referred the bill to the Economic Development Finance Division, where the bill died.


Representative Karen Clark was the chief author of H. F. 2584, which included Representative Tim Pawlenty as one of the co-authors. The bill proposed to establish an income tax credit for contributions to qualified affordable housing projects. The bill authorized a pilot run of this charitable tax credit proposal from 2001 to 2003, and required a report by the MHFA evaluating the effectiveness of the pilot project. The bill, which was heard in the Tax committee, did not pass.


In 2000, Senator Ellen Anderson and Representative Ann Rest authored S. F. 3408 and H. F. 3619, respectively. The bill proposed to allow for the pooling of tax increment revenues spent exclusively on an affordable housing development.144 Existing TIF law imposed restrictions on the pooling of tax increment revenues or the use of revenues from a district’s tax increments on activities outside the district.145 The bill proposed to eliminate these restrictions when tax increments were exclusively spent for assisting housing developments affordable to low-income Minnesotans. While the bill did not pass the House Tax Committee, it proceeded through the Local and Metropolitan Government Committee in the Senate and was included in the Omnibus bill. The bill, however, failed to pass in the conference committee.


Senator Pat Piper authored senate bill S. F. 3651

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while Representative Carlos Mariani was the chief author of the accompanying house bill—H. F. 3934. The bill authorized the issuance of state bonds to acquire, rehabilitate and expand transitional housing and to convert transitional housing to permanent affordable housing either for families served under transitional housing programs or for other low-income families. The bill, which prohibited the use of funds for new construction, was referred to two different committees and failed to pass.

S. F. 2896 (2002): Tax Increment Financing Grant Fund

Senator Larry Pogemiller authored S. F. 2896, which proposed to appropriate 80 percent of the unused money in the TIF Grant Fund to the MHFA to provide housing for low- and moderate-income persons and families. The legislature had created the TIF Grant Fund to help offset the tax increment revenue deficits caused by property tax reform. The bill, which was heard in the Property Tax Division, did not move any further because the appropriation for the Grant Fund was repealed in response to the state’s budget deficit in the 2002 legislative session.146


Senator Ellen Anderson and Representative Karen Clark authored S. F. 2958 and H. F. 2572, respectively. In an attempt to leverage funds for affordable housing, the bill proposed to establish an income tax credit for contributions to qualified affordable housing projects. The bill limited the amount of the credit to half the contribution certified by the Minnesota Housing Finance Agency, and set a minimum contribution limit of $1,000. The bill was referred to the Tax Committee, where it died.

S. F. 3391 and H. F. 2985 (2002): State Low-Income Housing Tax Credit

Authored by Senator David Tomassoni and Representative Irv Anderson, this bill proposed to establish a state low-income housing income tax credit for housing located in areas considered distressed by the MHFA. The bill designated the tax credit amount to be equal to the amount of federal low-income housing tax credits available to the state each year. The bill also allowed the credit to be carried over to future tax years or to be transferred to others. The bill was referred to the Tax Committee, where it died.


Authored by Senator Ann Rest and Representative Mike Jaros, this bill proposed to allow TIF authorities to create an affordable housing account to which they could pledge increment revenues for the purpose of affordable housing. The bill would authorize TIF authorities to spend the increment revenues in this account anywhere within their area of operation. The bill was heard in the Tax committee and was considered for the TIF bill. However, it was not included in the final version of the TIF bill.


Senator Mee Moua and Representative Morrie Lanning were the chief authors of this bill, which proposed to establish an income tax credit for contributions to qualified affordable housing projects. The bill authorized a pilot run of this charitable tax credit proposal from 2003 to 2006, and required a report by the MHFA evaluating the effectiveness of the pilot project. The bill was heard in the Tax committee but did not make it to the Omnibus Tax Bill.

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Authored by Senator John Marty and Representative Mike Jaros, this bill proposed to limit the amount of state mortgage interest income tax deduction to $25,000 a year, and to appropriate anything exceeding this amount to various homeless assistance programs. While the bill did not have a hearing in the House, it was considered in the Senate Tax committee and passed in the Senate floor. However, the bill did not move any further because the omnibus tax bills were not conferenced.

S. F. 2278 (2004): Tax Increment Revenue for Mixed-Income Housing Projects

Authored by Senator Mee Moua, this bill proposed to allow for TIF housing districts with mixed-income housing projects. The proposal would allow 20 percent of the units in the housing development to be exempt from limitations pertaining to tenant incomes. The bill was considered in the Senate Tax Committee and was almost included in the Omnibus Tax Bill. The bill did not pass.


Senator Mee Moua and Representative Morrie Lanning were the chief authors of this bill, which proposed to establish an income tax credit for contributions to qualified affordable housing projects. The bill authorized a pilot run of this charitable tax credit proposal from 2005 to 2007, and required a report by the MHFA evaluating the effectiveness of the pilot project. The bill was heard in the Tax Committee but failed to pass.

S. F. 1953 and H. F. 2427 (2005): Deed Tax

In 2005, Senator Dick Cohen and Representative Bob Gunther authored S. F. 1953 and H. F. 2427, respectively. The bill proposed to increase the deed tax by 10 percent from 0.0033 to 0.00358, and to appropriate half of the proceeds to the Housing Trust Fund to be used for rental assistance and the other half to the Challenge Fund for workforce housing. The bill would raise approximately $20 million per biennium. S. F. 1953 passed through two Senate committees and was referred to the Rules Committee for further action. H. F. 2427 was referred to the House Jobs and Economic Opportunity committee, and was included in the committee’s omnibus bill. The bill, however, was not heard by the House Tax Committee.


Senator Dick Cohen and Representative Morrie Lanning were the chief authors of this bill, which proposed to raise the deed tax rate from 0.33 percent to 0.50 percent. The bill proposed to appropriate the raised revenue—approximately $69 million a year—to the Minnesota Housing Finance Agency to be distributed among three housing programs. On the Senate side, the bill passed through the Jobs, Energy, and Community Development Committee and was referred to the Tax Committee, where it ended. On the House side, the bill was laid over at the Jobs and Economic Opportunity Policy and Finance Committee.

This brief review illustrates the wide range of revenue raising strategies housing advocates initiated in the last decade. Despite some of the failures, these initiatives testify to the strong interest among housing advocates and several legislators in bringing about a more secure and continuous source of funding for affordable housing. This interest is gaining momentum as housing advocates continue to emphasize the need for a dedicated revenue source for affordable housing in Minnesota.
The purpose of this section is to evaluate potential revenue sources available to the state in addressing Minnesota’s affordable housing need. We consider a number of revenue-raising strategies and examine the factors that affect the political viability of these strategies.

We use the following criteria to assess the state’s revenue alternatives:

Revenue potential compares the amount of revenues to the resources required to meet existing housing need. The amount of resources generated by any revenue strategy should be significant in relation to the state’s identified affordable housing need or significant in terms of expanding current state resources for affordable housing.

Dependability evaluates the extent to which the revenue sources remain stable over time. Revenue sources that fluctuate excessively with changes in market conditions could undermine the predictability of funds available for affordable housing. This decline in predictability could in turn reduce the supply of affordable housing in the long run by negatively impacting investment in affordable housing.

Conceptual connection to housing establishes whether or not resources are raised through housing-related activities. The existence of a connection facilitates consensus around a particular revenue strategy by providing a logical relation between resources and their intended use.

Tax incidence shows how the burden of a revenue strategy is distributed among different income groups. If the revenue burden increases proportionally with income levels, this revenue alternative is a progressive one. If the revenue burden declines proportionally as incomes rise, it is a regressive revenue strategy.

Political viability evaluates whether a revenue strategy is likely to have success in the legislature. The relative political clout of the supporters and opponents of a revenue strategy and the political context of revenue alternatives are among the important factors that determine the political viability of a revenue strategy.

Simplicity and flexibility of administration and efficiency in terms of leveraging resources are two other criteria that are commonly used to evaluate revenue alternatives. All the revenue alternatives considered in this study could be designed to achieve these two criteria with some significant exceptions. We will further elaborate upon these criteria when discussing these exceptions.

This study covers eight different revenue sources. We chose some of these revenue sources because they are among the most commonly used revenue sources used by housing trust funds across the country. We included others because they are at the center of current political discussions in Minnesota.

Deed Tax

Deed tax, or real estate transfer tax as it is known in other states, is among the most common dedicated revenue sources for state housing trust funds. Fourteen states charge no deed taxes on
the value of property. In the remaining 36 states, rates range from a low of 0.01 percent in Alabama to a high of 1.5-2 percent in Delaware. With its current deed tax rate of 0.33 percent, Minnesota ranks 18th among the 36 states that charge deed taxes. Deed tax revenues in Minnesota have been steadily increasing since 1995 and are projected to reach $133.8 million in 2006.

Deed tax has significant revenue potential, having raised around $124.2 million in revenues in 2005. Although deed tax revenues fluctuate with property values, they are relatively dependable because housing markets do not usually experience sudden and dramatic fluctuations (see Chart IV-1). Conceptually connected to housing, deed tax is also considered to be among the least regressive revenue sources because the amount of tax paid increases proportionally as the property value increases.

Revenue Strategy I: Raise the Deed Tax or Allocate a Portion of the Existing Deed Tax Revenues

We first consider raising the deed tax rate. Table IV-1 summarizes the estimated revenues that could be raised by this strategy.

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148 Charlie Bieleck from the Minnesota Department of Finance provided the estimate from the February, 2006 revenue forecast (03/08/06). In Minnesota, county treasurers, who collect the deed tax revenues, retain 3 percent of these revenues to meet their administrative expenses. The remainder goes into the state General Fund. See Karen Baker, “Mortgage and Deed Taxes,” House Research, October 2004, available at http://www.house.leg.state.mn.us/hrd/issinfo/ssmttax.pdf (accessed 11/14/05).
149 In Minnesota, the seller of a property pays the deed tax. The tax applies to the sale of any type of property the transaction of which involves a deed. This includes commercial/industrial as well residential property transactions.
150 Author’s calculations based on an estimated deed tax revenue figure of $133.8 million for FY 2006.
Minnesota's current deed tax rate is at the lower end of the national spectrum. As Table IV-1 demonstrates, raising the rate to the middle of that spectrum could bring in nearly $69 million in revenues. At a rate of 0.5 percent, for example, the deed tax bill of a home priced at the state median would increase by $383, from $743 to $1126.

The political ramifications of raising the deed tax further to a rate on the upper end of the spectrum become clearer when one looks at the impact of such a raise on a $225,260 home. Raising the rate to 1 percent, for example, could generate over $270 million a year. However, justifying such a raise for affordable housing becomes politically more difficult as the impact of the raise on a modest-income family home goes up significantly.

Another factor that determines the political viability of this strategy is opposition from interested parties such as the realtors. During the 2005 legislative session, the Minnesota Coalition for the Homeless led an effort to raise the deed tax from 0.33 percent to 0.348 percent. The effort, which was estimated to raise an additional $20 million for housing biennally, encountered political opposition from the Minnesota State Association of Realtors.

Historically, realtors associations in other states have opposed this strategy with the fear that it would negatively impact housing costs and economic development and reduce housing opportunities across the income spectrum. In Wisconsin and Colorado, the opposition of realtors has been strong enough to undermine the establishment of a housing trust fund. In other states, such as South Carolina and Hawaii, increases in deed tax rates have been passed despite the opposition of realtors.

It is important to note that realtors do not

Table IV-1: Estimated Revenues from Raising the Deed Tax

<table>
<thead>
<tr>
<th>Deed Tax Rate*</th>
<th>Additional Revenue</th>
<th>Impact on $225,260 Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.34%</td>
<td>$4.1 million</td>
<td>$23 more</td>
</tr>
<tr>
<td>0.50%</td>
<td>$68.9 million</td>
<td>$383 more</td>
</tr>
<tr>
<td>1%</td>
<td>$271.7 million</td>
<td>$1509 more</td>
</tr>
</tbody>
</table>

*Current rate is 0.33%.

Source: MHP calculations

If Minnesota were to raise its deed tax rate to 0.5 percent, there would be 12 states with deed tax rates equal to or higher than Minnesota’s. $225,260 was the median sales price for all residential properties in the State of Minnesota in the second quarter of 2005. Shenehon Center for Real Estate, “Minnesota Housing Report,” University of St. Thomas, Third Quarter, 2005, p. 4.

See Section III for a more detailed discussion of this legislative effort.

For the National Association of Realtors’ position on the real estate transfer tax, see http://www.realtor.org/s3.nsf/pages/transfertaxissues?OpenDocument (accessed 03/08/06).

In Wisconsin, realtors blocked increases in deed taxes that would have capitalized a state housing trust fund three times. For a history of the legislative battles and the resulting compromise, see http://www.wphd.org/Advocacy/Funds_Affordable_Housing.cfm (accessed 02/13/06). Housing advocates in Colorado have been working to form a state housing trust fund since 2001. In 2003, the Colorado Housing Investment Fund Coalition formed by these advocates pushed for a state housing trust fund to be capitalized by an increase in real estate transfer taxes. The proposed increase was estimated to raise $26-$30 million in revenues for affordable housing. The effort failed primarily due to opposition from the Colorado Association of Realtors, who objected to real estate transfer taxes as a source of dedicated revenue for affordable housing. For more on this initiative, see Colorado Housing Investment Fund Coalition, “Colorado Housing Investment Fund,” slide 10, available at http://www.communitychange.org/issues/housingtrustfunds/downloads/Colorado_April2005.ppt, (accessed 02/06/06).

In South Carolina, the state legislature raised the state’s documentary stamp tax by 20 cents per $500 of real estate sold. The increase, which was the result of a two-year long grassroots campaign by the state’s homeless advocates, passed despite opposition from the realtors. See http://www.sha.state.sc.us/Programs/Other/Trust_Fund/trust_fund.html and http://www.ncsha.org/uploads/SC_HTFAnniversaryVideo.pdf (accessed 03/24/06). See Section II above for details of the campaign in Hawaii.
uniformly oppose deed taxes as a dedicated revenue source for affordable housing. In fact, in a few significant cases, the realtors associations were instrumental in raising the deed tax in order to create dedicated revenue sources for affordable housing. Most famously, realtors in Florida agreed to a real estate transfer tax rate increase in 1992 to support the establishment of the state’s enormous housing trust fund. Their continuing support for the trust fund demonstrates that this revenue raising strategy is not necessarily detrimental to their business interests. More recently in 2005, the Columbus Board of Realtors endorsed a raise in transfer taxes in Franklin County, Ohio on the condition that the funds generated by this raise are dedicated to addressing the county’s affordable housing needs.

An alternative revenue strategy based on deed taxes is to dedicate a portion of the existing deed tax revenues to affordable housing. This strategy would require dedicating 51.5 percent of the estimated deed tax revenues in 2006 to affordable housing to raise the same additional amount of revenues that could be generated by raising the deed tax rate to 0.5 percent. Dedicating a portion of the existing deed tax revenues to affordable housing is less likely to raise opposition from realtors since this strategy does not involve any change in housing transaction costs. However, this reallocation of general fund resources, which would leave a hole in the general fund, is likely to raise other political objections because it would direct resources away from other uses.157

**Mortgage Registry Tax**

Unlike the deed tax, mortgage registry tax is rarely used as a dedicated revenue source by state housing trust funds. In fact, only a few states in the nation charge a mortgage registry tax. Currently Minnesota charges a rate of 0.23 percent on the amount of debt secured by the mortgage of real property.158 In Minnesota, mortgage regis-

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157 This is also an issue for transit advocates who are lobbying for the dedication of the existing motor vehicle sales tax revenues to transportation in Minnesota. These advocates believe that the growth in overall tax revenues will make the reallocation of motor vehicle sales tax revenues less of a problem over time.
try tax revenues, which nearly quadrupled since 1992, are projected to reach $160.9 million in FY 2006.\(^{159}\)

The revenue potential of the mortgage registry tax is higher than that of the deed tax. In terms of its dependability, however, mortgage registry tax is relatively less dependable compared to the deed tax. This is because mortgage registry tax revenues fluctuate with changes in refinancing activities in addition to changes in the volume of home sales. The recent history of housing markets demonstrates that compared to the volume of home sales, which tend to vary somewhat around a relatively stable trend line, refinancing activities can fluctuate rapidly and significantly with changes in interest rates. Chart IV-2 summarizes the historical impact of such fluctuations on mortgage registry tax revenues.

Like the deed tax, the mortgage registry tax is also conceptually connected to housing since the purchase of most housing involves a mortgage that is registered.\(^{160}\) Compared with the deed tax, however, it is harder to determine the tax incidence of the mortgage registry tax. A number of factors including refinancing activity and property transactions that do not involve mortgages tend to complicate the incidence of the mortgage registry tax. It is hard to determine the incidence of mortgage registry taxes because data regarding these complicating factors are not available.

Revenue Strategy II: Raise the Mortgage Registry Tax

Table IV-2 summarizes the estimated revenues that can be raised by increasing the mortgage registry tax rate.\(^{161}\)

Mortgage registry tax rates in the nation range from a low of 0.15 percent in Alabama to highs of 1 percent in New York and 1.1 percent in the District of Columbia.\(^{162}\) Minnesota’s current mortgage registry tax rate of 0.23 percent stands fairly low compared to mortgage registry tax rates in other states. Table IV-2 demonstrates that raising the mortgage registry tax rate to some point in the middle of the national rate range could raise nearly $189 million in revenues. At a rate of 0.5 percent, for example, this would increase the mortgage tax registry bill of a home priced at the

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**Table IV-2: Estimated Revenues from Raising the Mortgage Registry Tax**

<table>
<thead>
<tr>
<th>Mortgage Registry Tax Rate*</th>
<th>Additional Revenue</th>
<th>Impact on $225,260 Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.24%</td>
<td>$7 million</td>
<td>$20 more</td>
</tr>
<tr>
<td>0.50%</td>
<td>$188.9 million</td>
<td>$547 more</td>
</tr>
<tr>
<td>1.05%</td>
<td>$571 million</td>
<td>$1,655 more</td>
</tr>
</tbody>
</table>

*Current rate is 0.23%.

Source: MHP calculations

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\(^{159}\) Charlie Bieleck from the Minnesota Department of Finance provided the estimate from the February 2006 revenue forecast (03/08/06). Like the deed tax, the mortgage registry tax is collected by county treasurers who retain 3 percent of the proceeds for administrative expenses. The remainder of the proceeds goes to the state General Fund.

\(^{160}\) In Minnesota, the purchaser, not the seller, of a property pays the mortgage registry tax since the purchaser takes out the mortgage.

\(^{161}\) Author’s calculations based on an estimated mortgage registry tax revenue figure of $160.9 million for FY 2006. Charlie Bieleck from the Minnesota Department of Finance provided the estimates from the February, 2006 forecast (03/08/06). The impact numbers in the table are based on a property priced at the state median, with a 10 percent down payment, amounting to $202,734 principal debt secured by mortgage. The 10 percent down payment rate is the national industry standard in calculating housing costs. See, for example, the housing cost assumptions of The National Association of Home Builders-Wells Fargo Housing Opportunity Index, available at [http://www.nahb.org/generic.aspx?sectionID=135&genericContentID=533](http://www.nahb.org/generic.aspx?sectionID=135&genericContentID=533) (accessed 11/28/05).

Meeting the entire affordable housing need by raising the mortgage registry tax rate, however, might be a politically challenging revenue raising strategy. Raising the rate to 1.05 percent would raise sufficient revenues to meet the affordable housing need identified in Section I. However, this would impact the mortgage tax registry bill of a home priced at the state median by $1,655, from $466 to $2,121. Given the political difficulties of a mortgage registry tax rate increase with such a significant impact, we focus on the combined revenues that could be raised through the deed and the mortgage registry taxes.

Above-Trend Mortgage Registry and Deed Taxes

The unusually high volume of housing market activities since 2000 has created a significant amount of additional tax revenue for the state government in Minnesota. Chart IV-3 demonstrates the dramatic increase in the combined deed and mortgage registry tax revenues collected by the state since 2001.

The unusual market conditions that created the additional revenues for the state, however, drove up housing prices disproportionately compared to the 1992-2000 period and made housing significantly less affordable in Minnesota. We argue that it makes sense for the state government to reinvest part or all of this additional revenue into affordable housing to offset the negative impact rapidly rising housing prices had on affordability.

We estimate the additional tax revenue created by this unusually active housing market by comparing the actual revenues raised from 2001 to 2005 with the revenues that would have been raised had the market followed its natural trend. We assume that the decade before 2001 captures the natural trend of housing markets. Based on this assumption, we estimate a linear trend line for the 1992-2000 period, and extend this trend line to the 2001-2005 period (see Chart IV-4).
We use the extended portion of this trend line to estimate how much in tax revenues would have been raised between 2001 and 2005 had the market not been unusually active. We then compare these trend numbers with the actual revenues raised in the same period to calculate the additional revenue due to unusual market conditions for each year. As Chart IV-4 and Table IV-3 illustrate, we estimate the additional tax revenue created by the housing boom to be around $447 million by the end of 2005.¹⁶³

Revenue Strategy III: Dedicate the Additional Annual Revenue to the State Housing Trust Fund

As long as additional revenues from the housing boom continue to exist, each year's increment could be dedicated to the State Housing Trust Fund. This revenue strategy raises neither the mortgage registry nor the deed tax but instead reallocates existing revenues for the production and preservation of affordable housing. While the revenue potential is not significant enough to meet the state's affordable housing need in its entirety, this revenue strategy could at least alleviate the immediate negative impact of rapidly rising housing prices on affordability.

These additional revenues, however, are not a reliable revenue source as Table IV-3 demonstrates. These revenues widely fluctuate from one year to another primarily because of the volatility of the mortgage registry tax revenues. This strategy's limited revenue potential along with its partial dependability makes it an ideal supplement to a more dependable revenue source. This revenue

¹⁶³ The figures in the total row do not add up to the sum total of the rows above them due to rounding. The trend figures are based on the following trend equation: \( y = 52,447,000 + 9,845,500x \), where the year 1992 corresponds to \( x = 1 \), the year 1993 corresponds to \( x = 2 \) and so on. The actual figures are provided by Karen Baker, Legislative Analyst, Minnesota House of Representatives Research Department.
strategy also has a built-in blink off clause because dedication of the additional revenues ceases once the underlying causes for the additional revenue disappear. This might make this revenue strategy a politically attractive option since tax reallocations with a finite timeline and a specific rationale are usually politically easier to justify.

**Document Recording Fees**

While document recording fees are not the most popular dedicated revenue source for state housing trust funds, they are fairly commonly used among states with housing trust funds. Six states use document recording fees as a dedicated revenue source for their state housing trust funds. Revenues from this source range from $1.1 million in Delaware to over $42 million in Ohio. In 2005, Minnesota raised approximately $7.25 million in document recording fees.

The Minnesota State Legislature recently enacted changes in document recording fees. In addition to passing major fee increases for counties, the Legislature also standardized the recording fees for real estate documents across the state. Following these recent changes, the Minnesota Department of Finance expects the document recording fees to bring about $14.85 million in revenues in 2006.

The revenue potential of document recording fees in Minnesota falls far short of meeting the state’s affordable housing needs. The document recording fees also rank low in terms of revenue dependability because they fluctuate significantly along with the annual number of document transactions (see Chart IV-5). While conceptually connected to housing, document recording fees are on the regressive side of the tax incidence spectrum. These fees, like any other flat fees, burden fee payers equally regardless of their income. Since a fixed fee constitutes a higher percentage of

### Table IV-3: Estimated Additional Mortgage Registry and Deed Tax Revenues in Minnesota due to Unusual Market Conditions, 2001-2005

<table>
<thead>
<tr>
<th>Trend Value (millions)</th>
<th>Actual Value (millions)</th>
<th>Additional Revenue (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>151</td>
<td>159</td>
</tr>
<tr>
<td>2002</td>
<td>161</td>
<td>231</td>
</tr>
<tr>
<td>2003</td>
<td>171</td>
<td>298</td>
</tr>
<tr>
<td>2004</td>
<td>181</td>
<td>326</td>
</tr>
<tr>
<td>2005</td>
<td>190</td>
<td>286</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$853</strong></td>
<td><strong>$1,300</strong></td>
</tr>
</tbody>
</table>

Source: MHP calculations

164 These six states are Connecticut, Delaware, Illinois, Missouri, Ohio, and Washington. In addition to these six states, Massachusetts and Pennsylvania also use document recording fees to raise housing funds but these funds do not go to their state housing trust funds. Mary Brooks, Director of the Housing Trust Fund Project at Center for Community Change, provided the dataset regarding the revenue sources of the state housing trust funds (12/15/05).

165 Personal communication with Richard Pietz from the Minnesota Department of Finance, (1/4/06).


167 Personal Communication with Jim King from the Minnesota Department of Finance, (1/6/06). The estimate is based on the Department’s November 2005 forecast.

168 Richard Pietz from the Minnesota Department of Finance provided the data that underlies this chart (1/4/06). In FY 2005, the Department of Finance started receiving the document recording fees one month after they are collected by the counties. As a result of this accounting change, there are two different figures for the FY 2005. The actual amount collected for the FY 2005, that includes 13 months of collection credited to the FY 2005, is $8,015,250. For the purpose of keeping the figures in the chart consistent with a 12-month fiscal year calendar, the 12 month total is included. Jim King from the Minnesota Department of Finance clarified this discrepancy.
the income of a lower-income fee payer, it is a relatively regressive revenue strategy.

Document recording fees fail to meet most of the criteria we use to evaluate alternative revenues sources for affordable housing in Minnesota. Moreover, raising the document recording fee to create a dedicated revenue stream for affordable housing is not likely to succeed politically because document recording fees have already been significantly raised in the 2005 legislative session and requests for further increases are likely to encounter legislative resistance. When all these factors are taken into account, raising document recording fees to create a dedicated revenue stream for affordable housing in Minnesota does not seem to be a viable revenue raising strategy.

Sales Tax

Currently, there is no state housing trust fund in the nation that uses sales tax as a dedicated source of revenue. We chose to include it as a potential revenue alternative due to two reasons. First, there is local precedent for its use as a dedicated revenue source. The City of St. Paul’s STAR Program, which has been raising dedicated revenues for affordable housing through a local sales tax levy, is a successful local example of the creative use of sales tax revenues for housing trust funds. Second, in Minnesota’s current political environment there is significant interest among advocacy groups to dedicate a percentage of sales tax revenues to various social needs such as transportation and the environment. Given the significance of this revenue raising strategy in the current political discourse, we decided to explore it as a potential alternative.

The state sales tax in Minnesota is currently 6.5
percent. According to the most recent available data, this is the fourth highest sales tax rate in the nation.\(^{169}\) The state’s sales tax rate ranks high in the nation because Minnesota is one of the very few states that exempt both food and clothing from its sales tax base. This limits the state’s sales tax base and necessitates a higher sales tax rate to generate a comparable amount of sales tax revenues. In FY 2005, the state raised $4.794 billion in sales tax revenues.\(^{170}\)

The revenue potential of sales tax is significant compared to Minnesota’s housing need. Sales tax is also a relatively dependable source of revenue. As Chart IV-6 demonstrates, sales tax revenues were fairly stable from 1995 to 2005 with the exception of the 1999-2001 period. While the revenues were fairly steady during this time period, one-time sales tax rebates caused the overall fluctuation in the net amount collected. Such dramatic policy changes, however, are fairly rare and in the long-run sales tax revenues tend to be quite stable.

Sales tax, however, is only marginally connected to housing because it is applied to a wide range of transactions, only a fraction of which relate to housing. In terms of its tax incidence, sales tax is usually considered to be a relatively regressive tax. The Minnesota Department of Revenue’s latest Tax Incidence Study confirms this to be the case in Minnesota.\(^{171}\)

**Revenue Strategy IV: Dedicate Part of Sales Tax Revenues to Affordable Housing**

We consider dedicating part of the existing sales

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tax revenues to affordable housing as a fourth revenue strategy. We chose to consider dedicating part of the existing sales tax revenues rather than raising sales tax rates for two reasons. As discussed above, the sales tax rate in Minnesota is already fairly high compared to other states in the nation. This makes further raises in the sales tax rate politically unlikely. Moreover, raising the tax rate on a tax that is highly regressive puts an additional burden on low-income families who are in need of affordable housing, and this makes it a politically undesirable revenue raising strategy.

During the 2005 legislative session, two bills proposed the dedication of 1/4th of 1 percent of sales tax revenues for environmental purposes. We explore how much revenue would be raised if identical or similar percentages were dedicated to affordable housing. Table IV-4 summarizes the estimated revenues that can be dedicated to housing at different percentages.

### Table IV-4: Estimated Revenues from Dedicating Part of Sales Tax Revenues

<table>
<thead>
<tr>
<th>Sales Tax Rate</th>
<th>Revenues Dedicated to Affordable Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/8th of 1%</td>
<td>$92.2 million</td>
</tr>
<tr>
<td>1/4th of 1%</td>
<td>$184.4 million</td>
</tr>
<tr>
<td>3/8th of 1%</td>
<td>$276.6 million</td>
</tr>
<tr>
<td>1/2 of 1%</td>
<td>$368.9 million</td>
</tr>
</tbody>
</table>

Source: MHP calculations

The advocacy efforts of at least two groups affect the political viability of this revenue raising strategy. As mentioned above, environmental advocacy groups are actively seeking a constitutional amendment to dedicate sales tax revenues to protect natural resources. While some of these advocacy groups focus on raising the existing sales tax rate, others advocate for using a certain portion of the existing sales tax revenues. Similarly, transportation advocates in the state are pursuing a constitutional amendment to permanently dedicate the entirety of motor vehicle sales tax proceeds to public transit and highway infrastructure. In 2005, the state legislature voted to include the issue in the November 2006 ballot for voters to decide.

In Minnesota, a constitutional amendment for dedicating general fund revenues to specific purposes is not necessary because the state does not constitutionally restrict the dedication of general fund revenues to specific uses. Nevertheless, environmental and transportation advocacy groups seek these constitutional amendments to ensure a steady revenue stream for these specific purposes and to make it politically harder for the legislature to eliminate the dedication of general fund revenues in subsequent years.

It is hard to foresee how the legislative efforts of these advocacy groups might affect the success of housing advocates in ensuring the dedication of a portion of sales tax proceeds to affordable housing. If successful, these efforts might either set a

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172 There is some political interest in creating a regional sales tax for the purpose of jointly funding transportation, housing and a stadium and in expanding Minnesota’s sales tax base in general. However, no political leader or advocacy group has actively championed these concepts so far.

173 These two bills were HF 1909 authored by Representative Hackbarth and SF 1721 authored by Senator Saxhaug.

174 Author’s calculations based on a sales tax revenue figure of $4.794 billion for FY 2005.


176 Technically, dedication of general fund revenues for a specific purpose could be reversed even when this dedication is introduced by a constitutional amendment. This could be done by another constitutional amendment that reverses the prior one. However, in contrast to appropriation decisions that can significantly alter the resources available for specific purposes on a biennial basis, constitutional amendments are much harder to pass.
precedent that could be replicated by affordable housing advocates or, in contrast, might constitute an obstacle by making the legislators more resistant to future constitutional amendments demanding additional dedications.

The shared strategy of seeking a constitutional amendment for dedicating sales tax revenues could possibly create otherwise unlikely political coalitions across various advocacy groups. Such political coalitions, with their wider support bases, in turn, might increase the likelihood of passing an amendment that would dedicate a certain pool of sales tax revenues that could then be distributed to meet the state’s transportation, housing and environmental needs, for instance. Similar collaborations working to get a dedicated revenue stream for a larger pot of resources that could then be distributed among various purposes have been fairly successful in Florida, Massachusetts, Vermont, and Connecticut.

State General Obligation (GO) Bonds

State general obligation (GO) bonds have been used to finance affordable housing for more than a decade. The use of GO bonds has been a more popular revenue strategy in the last few years. Currently, four states – Washington, California, Massachusetts and Connecticut – use state GO bonds to raise revenue for housing. These states raise varying amounts of funds through state GO bonds, ranging from a low of around $14 million a year in Massachusetts and $20 million a year in Connecticut to upwards of $35 million a year in Washington. California has raised as much as $525 million a year in the recent past.

In 2005, Minnesota allocated $12.4 million of its GO bonds to housing. This amount constituted 1.4 percent of the state’s total GO budget of $885.9 million. Historically, state GO bonds have not been a steady source of revenue for housing in Minnesota. As Table IV-5 demonstrates, the percentage of state GO bonds that went into housing in the last five fiscal years fluctuated below 3 percent. In the near future, this percentage might go up somewhat because the MHFA is likely to seek bond funding for supportive housing more often as part of its plan to end long-term homelessness.

State GO bonds have significant potential for raising housing revenues in Minnesota. The dependability of these bonds as a revenue source, however, varies according to the political climate of each state. In Washington, for example, approximately 15 percent of the state GO bonds have been consistently allocated to housing over the last decade. This steady commitment reflects the success of Washington housing advocates in convincing the legislature that affordable housing as the infrastructure of economic growth is a capital asset that requires continuous investment. In other places, such as Massachusetts and Connecticut, state GO bond allocations have been provided by the legislatures as an alternative to appropriated revenue streams for state housing trust funds. In both of these states, the use of

<table>
<thead>
<tr>
<th>FY</th>
<th>Bonding Proceeds for Housing</th>
<th>General Obligation Proceeds</th>
<th>Percentage Spent on Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,000,000</td>
<td>446,698,000</td>
<td>0.45</td>
</tr>
<tr>
<td>2001</td>
<td>0</td>
<td>117,205,000</td>
<td>0.00</td>
</tr>
<tr>
<td>2002</td>
<td>16,200,000</td>
<td>551,007,000</td>
<td>2.94</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
<td>189,413,000</td>
<td>0.00</td>
</tr>
<tr>
<td>2004</td>
<td>0</td>
<td>0</td>
<td>No Bonding Bill</td>
</tr>
<tr>
<td>2005</td>
<td>12,350,000</td>
<td>885,892,000</td>
<td>1.39</td>
</tr>
</tbody>
</table>

Source: Minnesota House of Representatives Fiscal Analysis Department

177 Mary Brooks, Director of the Housing Trust Fund Project at Center for Community Change, provided the dataset regarding the revenue sources of the state housing trust funds (12/15/05).
Table IV-6: Estimated Revenues from Dedicating a Fixed Percentage of State GO Bond Proceeds to Affordable Housing

<table>
<thead>
<tr>
<th>Percentage of GO Bonds Dedicated to Housing</th>
<th>Revenues Dedicated to Affordable Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>$66.5 million</td>
</tr>
<tr>
<td>10%</td>
<td>$88.6 million</td>
</tr>
<tr>
<td>15%</td>
<td>$132.9 million</td>
</tr>
<tr>
<td>20%</td>
<td>$177.2 million</td>
</tr>
</tbody>
</table>

Source: MHP calculations

In contrast, are among the most regressive taxes in the state. As a result, the state’s overall tax system net of local property taxes has a slightly progressive tax incidence.\(^{179}\)

Revenue Strategy V: Dedicating a Fixed Percentage of GO Bonds to Housing

We consider dedicating a fixed percentage of the state GO bonds to housing as a fifth revenue strategy. As mentioned earlier, the state of Washington allocates approximately 15 percent of its capital budget revenues to housing each year. We estimate the revenues that can be raised by a similar strategy in Minnesota based on the amount of the state GO bond expenditures in 2005. Table IV-6 summarizes how much revenue could be dedicated to housing at different percentages.

Strictly from an economic point of view, raising revenues for affordable housing by using state GO bonds is an efficient revenue strategy. This strategy is efficient because the State of Minnesota has one of the highest credit ratings in the nation, and as a result, the state is capable of borrowing at very reasonable interest rates. However, the political rule of thumb in the legislature of limiting the debt service to 3 percent of the budget places a limit on the maximum amount of resources that could be raised through bonding. In addition to this political limit, there is a more significant political obstacle to this strategy.

The current state constitution strictly regulates the purposes for which GO bonds may be issued: bonds may only be issued for publicly owned projects, whether state or local.\(^{180}\) Thus, expand-

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\(^{179}\) The tax incidence of total state taxes—the revenue pool which most closely approximates the revenues which pay for GO bonds—confirms this reasoning. See Table 2-5 in The Minnesota Department of Revenue, “2005 Minnesota Tax Incidence Study”, p. 2, available at http://www.taxes.state.mn.us/legal_policy/other_supporting_content/05_incidence_report.pdf (accessed 3/31/06).

ing the state’s bonding resources for privately owned affordable housing would require a constitutional amendment that would allow state GO bonds to be used for the development of privately owned affordable housing. In order to pass such a constitutional amendment, housing advocates in Minnesota need to convince the state legislature that affordable housing, even when owned by the private sector, is a worthy investment that benefits the public.\(^{181}\)

Lately, non-profit organizations have been able to comply with the rule that prohibits the use of state GO bonds for non-publicly owned projects by partnering with local governments. The state’s constitution allows the use of state GO bond proceeds by non-profits for construction or remodeling of capital facilities under very specific circumstances. The Minnesota Department of Finance defines these circumstances as follows: “state general obligation bond proceeds may only be used for projects of this type if such proceeds are appropriated to political subdivisions. In this situation, political divisions must operate a public program managed by a non-public organization in a facility funded by general obligation bond proceeds and owned by the political subdivision.”\(^{182}\)

In the recent past, this has been a successful strategy for channeling state GO bond proceeds into supportive and transitional housing projects by non-profit developers without the requirement of a constitutional amendment. However, expanding this strategy to increase the amount of bond revenues that go into affordable housing might not be a feasible alternative because of the unwillingness of local governments to participate in such partnerships. Such partnerships tend to increase the administrative burden of local governments without significantly adding to their resources.\(^{183}\) Without additional incentives that might encourage local governments to explore this strategy, it might be unrealistic to expect significant GO bond revenues to be allocated to affordable housing projects in this specific way.

**Tax Increment Finance (TIF)**

Tax increment financing is a statutory financing tool to promote economic development, redevelopment, and housing in areas where it would not otherwise occur.\(^{184}\) This tool uses the increased property taxes generated by a new development to finance the costs of the development.\(^{185}\) TIF is currently available as a development tool in 40 states including Minnesota.\(^{186}\) There are six types of TIF districts in Minnesota, each with its own requirements. These are redevelopment, renewal

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\(^{181}\) “Under the state constitution, all expenditures of state funds, including bond proceeds, must be for a public purpose. There is a public purpose if the expenditure can reasonably be expected to achieve a legitimate public goal or benefit, even if some benefit may result for nonpublic interests. In determining whether the purpose is ‘public,’ one must look at both historical and contemporary standards. The legislature is given great deference in determining a purpose to be ‘public.’” Deborah A. Dyson, “State Bonding,” Minnesota House of Representatives Research Short Subjects, October 2002, available at http://www.house.leg.state.mn.us/hrd/issinfo/clssbond.pdf, accessed (1/6/06).


\(^{183}\) Another reason why local governments might not be interested in partnering with non-profit organizations for developing affordable housing projects is community opposition to affordable housing or NIMBYism. The extent to which NIMBYism prevents such partnerships between local governments and non-profits organizations varies from community to community.


and renovation, housing, economic development, soil conditions, and hazardous substance districts.\textsuperscript{187}

As of December 31, 2004, in Minnesota there were 2,210 active TIF districts, which generated over $255.6 million in tax increment revenues.\textsuperscript{188} Four hundred ninety one of these active districts were housing districts, 351 of which were located in Greater Minnesota and the remaining 140 in the seven-county Metro area.\textsuperscript{189} Together these housing districts generated around $18.6 million in tax increment revenues in 2004, the latest date for which data is available.\textsuperscript{190}

While the revenue potential of all types of TIF districts in Minnesota is significant compared to the state’s affordable housing need, the tax increment revenues generated exclusively by housing districts are currently far below what is required to meet the need. This is the case despite the fact that housing districts benefit from a number of

\textsuperscript{187} For details of each district’s requirements, see Peter J. Berrie and Stefanie Galey, “Tax Increment Finance: The Basics” in \textit{Tax Increment Financing: Basics for Nonprofits Seminar}, December 1, 2005, pp. 5-9.


\textsuperscript{190} Maggie Gebhard from the Tax Increment Financing Division of the Office of the State Auditor provided the tax increment revenues for the housing districts, (01/31/06).
statutory privileges that are not available to other types of TIF districts in Minnesota. In other words, despite all the incentives provided by the TIF law to enhance the tax increment revenues available to housing districts, TIF has been at best a limited revenue raising strategy for affordable housing in Minnesota.

Tax increment revenues are a relatively dependable source of revenue in the absence of significant changes in property tax policy because tax increment revenues are effectively foregone property tax revenues. As Chart IV-7 demonstrates, tax increment revenues were fairly stable from 1996 to 2005 with the exception of the significant drop in revenues following the 2001 Tax Reform Act. Since the Reform Act, which eliminated a significant source of tax increment revenues, these revenues settled to a new, lower level that is fairly steady. Since property tax reforms that create significant fluctuations in property tax revenues are rare, tax increment revenues tend to be fairly steady over time.

Only tax increment revenues generated in housing districts are directly related to housing. In other types of TIF districts, tax increment revenues are conceptually connected to housing to the extent that these districts create housing units. The current TIF law allows other types of TIF districts, such as redevelopment districts, to provide assistance to housing developments. The existing law also provides another important incentive to augment the amount of tax increment revenues directed toward affordable housing. This incentive is built into the TIF pooling rules.

Unlike most other states in which TIF legislation prohibits the geographic pooling of tax increment revenues, Minnesota allows the use of tax increment revenues for activities outside the boundaries of the TIF district from which they were collected. The amount of tax increment revenue that each type of district is permitted to pool, however, is subject to certain limits. Redevelopment districts may pool up to 25 percent of their tax increment revenues while all other types of districts are allowed to pool up to 20 percent. Housing districts are the only type of TIF district that are exempt from these pooling limits.

But perhaps more importantly, TIF authorities can increase the permissible pooling percentages of their districts by up to 10 percentage points if the

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191 Examples of these statutory privileges include exemptions from tax increment revenue pooling limitations as well as from geographical restrictions that prevent TIF districts from being created on parcels the property tax values of which were limited under the Green Acres, Minnesota Open Space Property Law, or the Metropolitan Agricultural Preserves Act. For a complete list of these privileges, see Minnesota House of Representatives, Department of Research, “Housing TIF Districts,” available at [http://www.house.leg.state.mn.us/hrd/issinfo/hsgdisttif.htm](http://www.house.leg.state.mn.us/hrd/issinfo/hsgdisttif.htm) (accessed 1/29/06).

192 While these legal incentives boosted the share of housing districts in all TIF districts from a low of 14.2 percent in 1997 to 22.2 percent in 2004, the nominal tax increment revenues per housing district declined from around $4.5 million per housing district in 2000 to a little over $3.7 million per district in 2004. Author’s calculations from data provided by Maggie Gebhard, Tax Increment Financing Division, Office of the State Auditor.

193 According to a 2006 report released by the Office of the State Auditor, since the Property Tax Reform Act of 2001, the number of new TIF districts declined by approximately 44 percent due to two reasons. First, the Reform Act of 2001 reduced the tax increment available by eliminating the local education levy—a significant source of TIF revenue comprising one-third to one-half of the overall TIF revenues captured from property tax base. Second, the restrictions on the use of tax increment increased dramatically since 2001, making it a less attractive tool of finance. See Office of the State Auditor, State of Minnesota, “2004 Tax Increment Financing Legislative Report,” January 2006, p. 10, available at [http://www.osa.state.mn.us/reports/tif/2004/tifLegislative_04/tifLegislative_04_report.pdf](http://www.osa.state.mn.us/reports/tif/2004/tifLegislative_04/tifLegislative_04_report.pdf) (accessed 1/29/06).


additional increment revenue is used for assisting rental housing projects that would qualify for the Federal LIHTC program. This provision further encourages the transfer of tax increment revenue from all types of districts into affordable housing projects outside the TIF district. It also opens up another avenue through which tax increments for affordable housing can be increased.

As should be clear from the discussion above, housing districts per se have raised relatively limited amounts of tax increment revenues for affordable housing. In contrast, pooling the surplus of other types of TIF districts for affordable housing might create more significant amounts of tax increment revenue for affordable housing. In the past, cities like Minneapolis have transferred the surplus tax increments generated by their economic development districts into financing affordable housing in other TIF districts within their jurisdiction’s project area. In fact, this has been a very effective strategy in raising revenue for affordable housing.

This revenue strategy has been effective because other types of TIF districts are generally more capable of creating tax increment revenue surpluses than housing districts due to the large amounts of new tax capacity they could generate. Compared to economic development districts, for example, housing districts are not very effective in generating large amounts of tax increment revenues. This is the case because the low market value of affordable housing limits both the tax capacity of the specific projects and the amount of increment revenue that can typically be generated by housing districts.

Successful examples of transferring surplus increment from economic development districts to affordable housing prompted legislative efforts to further increase the percentage points that could be pooled toward affordable housing. One bill introduced in 2000, for example, proposed to eliminate altogether the 10 percentage point pooling limit that could be extended toward affordable housing. Authored by Representative Ann Rest and Senator Ellen Anderson, H. F. 3619 and S. F. 3408 proposed to allow all types of districts to pool an unlimited amount of increment revenue if the revenues were spent on housing projects that would qualify for the Federal LIHTC program.197

While this might have been an appropriate revenue strategy for affordable housing prior to the 2001 Tax Reform Act, the degree to which it could generate additional tax increment revenues for affordable housing under the current environment is somewhat limited. The current revenue potential of such a legislative strategy is limited for two reasons.

First, the legislature has been gradually tightening the restrictions on TIF districts since the 1990s, making it harder for them to generate surplus increment revenues. The introduction of a local government aid reduction penalty for local jurisdictions with TIF districts and the consequent introduction, in 1995, of a local match option for these jurisdictions to avoid the state penalty both reduced the overall amount of tax increment surpluses that could be pooled. Second, as mentioned above, the 2001 Tax Reform Act generally reduced the amount of tax increment available to TIF districts by converting a portion of the general education tax—a tax imposed by school districts that contributed to TIF revenues—to a state-imposed tax on commercial and industrial properties, a tax which did not contribute to TIF revenues.198

197 For details of these bills see Section III above.
For these reasons, tax increment surpluses that could be directed toward affordable housing through TIF pooling are likely to be smaller after 2001. No government agency tracks the amount of surplus tax increment revenue generated by TIF districts at the state level. Therefore, it is hard to determine the amount of the increment revenue that could have been extended to affordable housing by a strategy of unlimited surplus pooling, if such a legislative strategy were implemented.\(^\text{199}\)

Another complicated aspect of tax increment revenues is their tax incidence. It is difficult to evaluate the incidence of tax increment revenues primarily because the incidence of tax increment revenues depends upon the type of TIF assistance. There are two types of TIF assistance: “up-front assistance” and assistance through what is commonly referred to as “pay-as-you-go” notes.

When a TIF authority extends “up-front assistance,” it does so by issuing TIF bonds to investors and then contributing the proceeds of these bonds to the TIF project. Effectively the TIF authority—generally a development authority or a municipality—pledges the tax increment from the project towards payment of the bonds and relies upon the tax increments to make these payments. If indeed the TIF authority collects a sufficient amount of increment revenues to cover the bond payments, the incidence of the TIF districts is neutral. If, on the other hand, these increments fall short of the amount to make the bond payments, the TIF authority has to absorb the losses associated with the initial pledge.

The method through which the TIF authority absorbs these losses depends, in turn, upon the type of TIF bond issued by the TIF authority. TIF authorities usually issue two types of TIF bonds: general obligation (GO) bonds and revenue bonds. If the authority issuing the bonds pledges its full faith and credit to repay the bonds, effectively guaranteeing the bonds with its full credit, these bonds are legally considered general obligation (GO) bonds. If the authority, instead, chooses not to guarantee the bonds with its full credit, and simply promises to repay the bonds out of the revenues of the TIF district, these bonds are legally considered revenue bonds.

When a TIF district fails to produce sufficient tax increments to repay the GO bonds, the TIF authority is legally obliged to repay the difference out of its general fund revenues. This means that the citizens residing within the legal borders of the TIF authority bear the burden of the losses associated with the TIF district since their local tax payments constitute the revenues of the general fund. In contrast, when a TIF district fails to produce sufficient tax increments to repay the revenue bonds, the TIF authority is legally obliged to repay the losses strictly out of tax increment revenues. In this case, the incidence of the loss is borne directly by the developer.

When a TIF authority chooses to extend assistance through the “pay-as-you-go” notes, it does not issue bonds in order to make a direct contribution toward the development costs. Instead, the TIF authority sells one bond (called a note) to the developer, effectively borrowing from the developer and contributing the proceeds of this promissory note to the project. With this note, the TIF authority agrees to pay the developer

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\(^{199}\) Another current strategy to encourage the flow of TIF dollars into affordable housing finance focuses on the pre-1979 TIF districts. Currently, there are 55 active pre-1979 districts in the State of Minnesota. Special TIF legislation applying to the pre-1979 districts requires the decertification of these districts by 2009. The pre-1979 districts generated around $62.5 million in tax increment revenues in 2004. Had the pre-1979 districts in Minneapolis alone been decertified in 2004, for example, this would have cost the city $32.5 million in lost tax increment revenues. This strategy proposes the option of allowing local jurisdictions to extend their remaining pre-1979 districts for another five years after 2009 if they choose to spend the increment revenues generated by this extension exclusively on affordable housing projects. Kurt Mueller, Office of the State Auditor, provided the tax increment revenue figures for the pre-1979 districts(02/06/06).
back for the loan from the tax increments generated by the development. The developer gets paid only to the extent that the tax increment revenues from the development are realized. This method of assistance places the financial burden originating from the possibility of insufficient tax increment revenues entirely on the developer. If sufficient tax increment revenue is generated, the incidence of the “pay-as-you-go” method is neutral. In contrast, if the actual revenues generated by the development fall short of the expected amount, the burden of the cost is solely borne by the developer.

Since the late 1980s, revenue bonds and “pay-as-you-go” notes have increasingly become the preferred method of TIF assistance in Minnesota as more and more TIF authorities shy away from assistance through the GO bonds. As a result, in the event of a default, the overall incidence of tax increment revenues has been gradually shifting away from TIF authorities toward the developers.

Over the years, housing advocates in Minnesota explored most legal avenues for raising additional revenues for affordable housing through the TIF legislation. At this point, TIF as a revenue tool for affordable housing is reaching its economic limits. Any attempt to raise revenues for affordable housing through TIF legislation also needs to come to terms with the reluctance of the Minnesota House of Representatives to take on any further changes in TIF law.

**Tax Credits**

Tax credits are becoming a popular means of financing affordable housing across the nation. One basic reason for this popularity is that once in place, a tax credit program resembles a dedicated revenue source. In most states, tax credits are not impacted by the cuts that most budget appropriations are subject to because of a general sense that reducing tax expenditures would be perceived as tax increases rather than expenditure cuts.

There are two basic models for state tax credit programs. The first one is an investment tax credit. The second one is a charitable tax credit. In this section, we evaluate both types of tax credits as potential revenue sources for affordable housing in Minnesota.

**Investment Tax Credits**

Investment tax credits are based on the concept of “investment” in low-income housing, with those purchasing the tax credits seeking a financial return. State investment tax credit programs are usually modeled after the federal LIHTC program and are commonly known as state LIHTC programs. These programs usually work as follows.

An affordable housing developer applies to the state for federal and state tax credits. The state allocates a certain amount of state low-income housing tax credits to projects that are also eligible for federal low-income housing tax credits. The developer then sells the credits to investors usually through an intermediary financial institution called a syndicator. The investors who buy the credits become partial owners or limited stakeholders in the project. The proceeds of the tax credit sales provide equity to the project.

As of 2004, Puerto Rico and 13 states in the

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200 One strategy for going around these economic limits has been to push for legislation that would allow mixed-income projects within the TIF housing districts. This strategy, which intends to enhance the tax increment revenue base of the TIF housing districts, has been receiving mixed response from affordable housing advocates. See, for example, the bill, S. F. 2278, authored by Senator Moua in 2004 in Section III.

nation had state low-income housing tax credit programs. In 2004, the estimated state low-income housing tax credit revenues available for affordable housing ranged from a low of $150,000 in Vermont to a high of $70 million in California.

The interaction between state and federal taxes makes state tax credits less attractive in the eyes of investors. Since state taxes are deductible from federal income taxes, a reduction in the amount of state taxes due to a state tax credit ultimately results in an increase in federal income taxes. As a result, the value to the purchaser of a state tax credit becomes significantly less than the face value of the credit. For example, if the federal income tax rate of a state tax credit purchaser is 35 percent, a $1 state tax credit has an after tax value of $0.65 for this investor.

This interaction between state and federal taxes also makes state credit programs more costly and less fiscally efficient than federal tax credit programs. One dollar worth of state tax credits typically sells for between $0.30 and $0.50. However, depending on a number of factors which affect the local market for state tax credits, the price for state tax credits ranges from a low of $0.25 to as much as $0.62 in California. This means that only a small fraction of each dollar lost to state tax revenues goes into financing affordable housing.

States use different methods in determining the amount of state tax credits made available for affordable housing. Some states, such as Arkansas, commit themselves to providing a fixed percentage of the federal low-income housing tax credits available each year. Other states, such as California, have a set dollar amount available instead. Tying the amount of state tax credits available to a percentage of federal credits might make it easier to increase the allocation over the years and might make the program’s cost more transparent in general.

Given a strong local market for state tax credits, these credits can theoretically raise reasonable amounts of revenue for affordable housing. However, just how strong the local market for state tax credits in Minnesota would have been, had such credits existed in the state, is far from clear. One past legislative proposal to establish a state low-income housing tax credit estimated revenues from such a tax credit to be around $30 million between FY 2000 and FY 2003.

As mentioned above, once in place state low-income housing tax credits tend to be a very dependable source of revenue because state legislatures cut tax credits far less frequently than appropriations. Despite being a dependable revenue source, however, state tax credits

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202 These states are Arkansas, California, Connecticut, Georgia, Hawaii, Massachusetts, Missouri, New York, North Carolina, Oregon, Utah, Vermont, and Virginia. For further information on these programs, see Novogradac and Company, LLP, “LIHTC Programs,” available at http://www.novoco.com/2004_State_LIHCs.shtml (accessed 02/04/06). Oregon’s state tax credit for housing is very unusual in the sense that it is a hybrid between investment and charitable tax credits. The Oregon Affordable Housing Tax Credit allows banks to reduce interest rates on loans for affordable housing by 4 percent and claim a state income tax credit equal to the lost interest income caused by the lower interest rate. From the banks’ point of view, this interaction is not strictly a charitable donation but a business decision to forego profits for tax credits. From the developers’ point of view, however, the tax credit effectively is a charitable tax credit since the additional equity coming into the project due to this reduced interest is not technically owned by the investor. Due to the program’s hybrid nature, we include the program under both the charitable and investment tax credits.


205 For details of this proposal, see S. F. 493 and H. F. 584 (1999), discussed in Section II.
are not directly connected to housing unless the credits strictly apply to housing-related taxes. The incidence of state tax credits also depends upon the choice of state taxes to which credits could be applied.

All things considered, a state gets a much better deal, compared to having a state low-income housing tax credit program, if it directly makes grants or deferred loans to projects. That is why most of the early state tax credit programs were developed in states that did not make direct appropriations for housing. In states like Florida, where affordable housing developers have easy access to grants through the state’s generous housing fund, for instance, state tax credits tend to fail due to the unwillingness of developers to deal with the complexities of the state tax credits.

Minnesota is one of the leading states in the nation in terms of its direct appropriations for housing. Given the continuing prevalence of direct appropriations in financing affordable housing in the state, state tax credits might be a needlessly complex option for affordable housing developers in Minnesota. Moreover, Minnesota’s political environment, with its current focus on stretching public dollars to their fullest extent, is unlikely to tolerate policy options that are fiscally inefficient.

Charitable Tax Credits

The idea behind a charitable housing tax credit is to provide incentives for businesses and individuals to make charitable contributions for affordable housing. The tax credit rewards those who make cash or in-kind donations with a tax credit valued at a certain percentage of their contribution. The charitable housing tax credit works as follows.

A non-profit affordable housing developer applies to the administrator of the tax credit program with a qualifying project to receive a reservation of state charitable tax credits. Once the project is approved and the credits are reserved, the developer locates a charitable donor. The donor, then, receives the state charitable tax credits and the amount of the donation becomes equity in the project.

For small projects with a ready donor, the process is fairly simple and cost-efficient. Larger projects, in contrast, can be more time consuming because developers might spend significant amounts of time locating donors. The size of these projects might also require the transferability of the tax credits to ensure a larger pool of potential donors.


208 These states are Connecticut, Florida, Illinois, Missouri, Oregon, and Vermont.

209 For Vermont’s version of this credit, see “Charitable Housing Investment Credit,” available at http://www.state.vt.us/tax/creditscharitable.shtml (accessed 02/05/06). For Connecticut’s version of this credit, see “Housing Tax Credit Contribution Program Allocations,” available at http://www.chfa.org/TaxCredits/taxcredits_HousingTaxContributeProAllocation.asp (accessed 02/05/06). Florida recently reauthorized its Community Contribution Tax Credit Program until 2015 and raised the amount of tax credits available from $10 million to $12 million. For details, see Florida League of Cities, “2005 Legislative Final Report,” p. 6, available at http://www.flcities.com/legislative/files/5E72A8E8DAE44CFEAA010B8C011361AC6.pdf (accessed 02/05/06). Missouri’s Affordable Housing Assistance Program offers $10 million in charitable tax credits annually. See “AHAP Tax Credits,” available at http://www.mhdc.com/rental_production/ahap/ (accessed 02/05/06). The Oregon Affordable Housing Tax Credit offered $4.2 million in state tax credits in FY 2004. The state legislature in Oregon increased the amount of state tax credits available from $5 to $11 million in 2005 legislative session. Carol Kowash, Program Manager of the Oregon Affordable Housing Tax Credit Program, provided the information regarding this program (02/05/06).
These factors tend to make larger projects more costly and complex.

Currently, six states have state charitable housing tax credit programs. The amount of charitable housing tax credit revenues these states make available for affordable housing varies from a low of $5 million in Connecticut and Vermont to a high of almost $16 million in Illinois. Charitable tax credits are not a primary source of revenue for affordable housing in any one of these states. They simply complement other revenue streams and constitute yet another tool in the toolbox of state housing finance agencies.

Despite being a secondary revenue stream for affordable housing, charitable housing tax credits are nevertheless a very dependable source of revenue compared to direct appropriations. Like all other tax credits, charitable tax credits are relatively immune to biennial changes in the political climate because they are written into the tax code. Like the investment tax credits, charitable tax credits are not directly connected to housing unless the credits strictly apply to housing-related taxes. The incidence of charitable tax credits is also similar to the incidence of investment tax credits. In both cases, the incidence depends upon the selection of state taxes to which credits could be applied. Since states differ in their choice of the type of taxes to which charitable tax credits are applicable, the incidence of the charitable tax credits vary across states depending on each state’s choice.

Charitable housing tax credits have a number of benefits that make them an attractive revenue raising strategy for affordable housing. Designed appropriately, a charitable housing tax credit program is fiscally very efficient; it can bring more money into affordable housing than it costs the state in lost taxes and to administer the program. Charitable housing tax credits are also a much simpler investment tool than the state low-income housing tax credits, which require a complex multi-tiered ownership structure for each project to maximize the value of credits.

Yet another attractive feature of charitable housing tax credits is their flexibility. These credits not only provide the donors with the flexibility to make non-cash contributions but also they can accommodate all types of affordable housing. Many types of affordable housing that do not qualify for federal low-income housing tax credits in Minnesota, for example, could benefit from the flexible dollars provided by charitable housing tax credits. Finally, charitable housing tax credits could be geographically tiered to create additional incentives for contributions to projects in underserved, rural areas.

Having realized the numerous benefits of state charitable housing tax credits, housing advocates in Minnesota have been lobbying for a state charitable housing tax credit program for more than a decade. Since 1999, legislators introduced four different bills to establish such a program but none of these bills passed. Despite their long-standing interest in a state charitable tax program, housing advocates continue to view charitable tax credits as a mere supplement to appropriations, choosing to focus instead on securing sufficient amounts of appropriations for affordable housing. This attitude as well as the concern among some that a charitable tax credit could simply redirect donations from other areas into housing without increasing the overall amount of charitable contributions might have played some role in the failure of past attempts to establish a charitable tax credit program.
This appendix explains in detail the methodology of our estimates of per unit cost subsidies for the construction of new owner and rental units. For these estimates, we analyzed all the single-family and multi-family projects funded by the MHFA through the Super RFP process between 2003 and 2005, and calculated the per unit cost subsidies for the construction of new single-family and multi-family units. We then used these per unit cost subsidies as a proxy for the cost subsidies required for new owner and rental units, respectively.

Calculation of Per Unit Cost Subsidies for New Owner Units

We collected the data for our calculations of the cost subsidy figures for single-family projects from the MHFA board meeting reports that detail all the projects funded through the Super RFP process for each of the three years. We included all the approved single-family projects that were included in the reports with the following exceptions:

- If the project received contributions from the other Super RFP partners but not from the MHFA
- If funding was requested solely for the following purposes: mortgages and loans for homebuyer assistance, construction financing, rehabilitation or home improvement.
- If the project received either affordability gap contributions only or no gap contributions at all
- If the project sheets did not include sufficient information to determine the funding allocation

For each single-family project that either received value gap funding or received both value and affordability gap funding, we recorded the per unit value gap contribution and the per unit affordability gap contribution reported in the project sheet along with the number of new units. We multiplied the number of units by the per unit value gap contribution for each project and summed the figures across all the projects funded in each year. This gave us the total value gap contribution figure for that year.

Similarly, we multiplied the number of units by the per unit affordability gap contribution for each project and summed the figures across all the projects funded in each year. This gave us the total affordability gap contribution for that year.

We added the total affordability and value gap contributions in a given year to reach the total gap contribution for that year. We divided this figure by the number of new single-family units to reach the per unit total gap contribution for each year. We used this per unit total gap contribution

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210 We excluded these projects because the MHFA board reports included no information on them other than their names.
211 We excluded these projects because funding requested for these purposes do not directly lead to the creation of new housing units.
212 For projects with more than one design and cost structure, each design was considered independently, when possible.
figure as a proxy for the per unit cost subsidy required for the construction of a new owner unit.

**Calculation of Per Unit Cost Subsidies for New Rental Units**

We collected the data for our calculations of the cost subsidy figures for multi-family projects from the MHFA board meeting reports that detail all the projects funded through the Super RFP process for each of the three years. We included all the approved multi-family projects that were included in the reports with the following exceptions:

- If the project received contributions from the other Super RFP partners but not from the MHFA
- If funding was requested solely for the following reasons: rental assistance, construction financing, operating subsidies, preservation or rehabilitation
- If the project sheets did not include sufficient information to determine the funding allocation

Because funding for multi-family projects is cumulative across funding rounds, we used the number of units and the amount of funds reported in the latest round of the Super RFP process. We excluded earlier versions of those projects funded in multiple rounds from our calculations to avoid double-counting.\(^{213}\)

For each multi-family project, we analyzed all the contributions that went into the project and divided them into two main categories: grant-equivalent contributions and amortizing debt finance contributions. According to our definition, grant-equivalent contributions included the following funds:

- **State funds:** Non-amortizing contributions received from state general obligation (GO) or state revenue bonds, as well as funds from the Department of Human Services, and the MHFA.
- **Other public funds:** Non-amortizing contributions received from the Federal government, the Metropolitan Council, and local governments.\(^{214}\)
- **Owner contributed funds:** Non-amortizing contributions received from the project owner or developer.
- **Charitable funds:** Non-amortizing contributions received from businesses, philanthropic organizations, the Federal Home Loan Bank, the Family Housing Fund, and the Greater Minnesota Housing Fund.
- **Syndication proceeds:** Contributions received through the proceeds of the Low-Income Housing Tax Credit and Historic Tax Credit syndications.
- **Other:** Anticipated contributions received from unidentified sources that were attributable to non-amortizing sources.

Our second category, amortizing debt finance contributions, includes borrowed funds that need to be repaid on an ongoing basis by tenant rent payments and the mortgage payments of the owners. These contributions included the following funds:

- Commercial loans (sum total of first mort-

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213 Since funding for single-family projects is not cumulative across funding rounds, we used the number of units and the amount of funds reported in each round of the Super RFP process in our calculations of the per unit cost subsidies for owner units.

214 The Metropolitan Council as a regional agency has a hybrid revenue structure. On one hand, it has the authority to levy property taxes like local governments. On the other hand, it receives direct appropriations from the legislature like any other state agency. In Section III, we categorized the Metropolitan Council as a state agency primarily due to the appropriated state funds it directly receives from the legislature. In this appendix, we categorize the contributions of the Metropolitan Council under other public funds because a majority of these contributions come from property taxes rather than state appropriations.
gages and bank loans)

- TIF mortgages and loans
- CDA/HRA amortizing mortgages
- Tax-exempt bond loans
- FHA-insured loans
- MHFA loans (LMIR)

These funds were not included in our calculation of needed gap financing.

For each year, we deducted syndication proceeds from the total amount of grant-equivalent contributions to reach the total amount of cost subsidies required for the construction of new rental units. We divided this figure by the number of new multi-family units to determine the per unit cost subsidy required for the creation of new multi-family units in that year. We then used this figure as a proxy for the per unit cost subsidies required for the construction of new rental units.

We also calculated the per unit cost subsidies required for rental units under the assumption that syndication proceeds from the federal LIHTC program should not be taken for granted. Under this assumption, to make up for the absence of federal syndication proceeds, other sources must increase their grant-equivalent contributions by an amount equal to the current amount of syndication proceeds. For this calculation, we added an amount equal to the current syndication proceeds to the total grant-equivalent contributions minus the syndication proceeds to make up for the missing syndication proceeds. In effect, we simply took the total amount of grant-equivalent contributions and divided this figure by the number of new multi-family units. This gave us the per unit cost subsidies required for the creation of new multi-family units in each year. Table A-1 summarizes the per unit cost subsidies required for the creation of new multi-family units under this assumption.

Since development costs go up approximately 3.5 percent each year, we inflated the 2003 and 2004 figures to reflect their real value in 2005 dollars. We then summed these three figures (all in 2005 dollars) and divided the total by three to reach the average 2003-2005 per unit cost subsidy in 2005 dollars: $112,020.

As part of our calculations of the per unit cost subsidies for rental units, we also explored two

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**Table A-1: Total Construction Subsidies for MHFA Funded Multi-Family Projects in the Absence of Federal Syndication Proceeds, 2003-2005**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Grant-Equivalent Contributions: (X)</th>
<th>Total Syndication Proceeds: (Y)</th>
<th>Total Grant-Equivalent Contributions Net of Syndication Proceeds: (X)-(Y)</th>
<th>Other Resources Required to Make Up for the Missing Syndication Proceeds: (Y)</th>
<th>Total Project Units: (Z)</th>
<th>Per Unit Cost Subsidies Required: [(X)-(Y)+(Y)]/(Z)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>181,491,364</td>
<td>61,192,605</td>
<td>120,298,759</td>
<td>61,192,605</td>
<td>2,005</td>
<td>90,519</td>
</tr>
<tr>
<td>2004</td>
<td>119,957,851</td>
<td>63,990,132</td>
<td>55,967,719</td>
<td>63,990,132</td>
<td>1,166</td>
<td>102,880</td>
</tr>
<tr>
<td>2005</td>
<td>180,354,005</td>
<td>106,266,316</td>
<td>74,087,689</td>
<td>106,266,316</td>
<td>1,360</td>
<td>132,613</td>
</tr>
</tbody>
</table>

**Average 2003-2005 Per Unit Cost Subsidy in 2005 Dollars**

112,020

All projects are funded through the Super RFP Process.

Source: MHP calculations based on 2003-2005 MHFA Board Reports
alternative scenarios to examine the extent to which the specific composition of the MHFA projects impacted the cost subsidy figures we calculated.

**Scenario I: The Impact of Supportive Housing Units**

The first scenario explored whether the inclusion of projects with a considerable number of supportive housing units significantly impacted the per unit cost subsidy figures for rental units. To measure the impact that such projects made on our cost subsidy figures, we eliminated all the projects where more than half of the total units were identified as supportive housing units. This elimination removed 91 percent of all the supportive units funded in these three years from our calculation. Table A-2 summarizes the per unit cost subsidies required for the construction of a new rental unit once projects with a considerable number of supportive housing units are excluded.

As Table A-2 demonstrates, the per unit cost subsidy required for the construction of new rental units in 2005 dollars goes down by $4,348 when projects with a considerable number of supportive housing units are excluded. This finding confirms that projects with supportive housing units are more costly to develop than projects without supportive units, but not by much. Basing our per unit cost subsidy figures on a sample of projects which did not include a considerable number of supportive housing units would have reduced the annual amount of new construction subsidies needed by approximately $10.5 million out of a total amount of $172.7 million.

**Scenario II: The Impact of Market-Rate, Public-Owned or Public-Subsidized Units**

The second scenario explored whether the inclusion of projects with a considerable number of market-rate units and a considerable number of public-owned or public-subsidized housing units significantly impacted the per unit cost subsidy figures for rental units. To measure the impact that these projects made on our cost subsidy figures, we eliminated all the projects where the combined percentage of such units exceeded 25 percent of the total project units. This elimination removed more than 75 percent of such units from our calculation. Table A-3 summarizes the per unit cost subsidies required for the construction of new rental units once projects with a considerable number of public-owned or public-subsidized housing units are excluded.

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### Table A-2: Per Unit Cost Subsidies for MHFA Funded Multi-Family Projects, 2003-2005 (Scenario 1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Unit Cost Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>59,801</td>
</tr>
<tr>
<td>2004</td>
<td>37,595</td>
</tr>
<tr>
<td>2005</td>
<td>52,414</td>
</tr>
</tbody>
</table>

**2003-2005 Average Per Unit Cost Subsidy in 2005 Dollars**

$51,795

*All projects are funded through the Super RFP process.*

Source: MHP calculations based on 2003-2005 MHFA Board Reports

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### Table A-3: Per Unit Cost Subsidies for MHFA Funded Multi-Family Projects, 2003-2005 (Scenario 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Unit Cost Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>56,856</td>
</tr>
<tr>
<td>2004</td>
<td>40,970</td>
</tr>
<tr>
<td>2005</td>
<td>53,921</td>
</tr>
</tbody>
</table>

**2003-2005 Average Per Unit Cost Subsidy in 2005 Dollars**

$52,410

*All projects are funded through the Super RFP Process.*

Source: MHP calculations based on 2003-2005 MHFA Board Reports

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We also excluded those projects where more than 25 percent of the units received Project Based Assistance to make the units affordable at 60 percent of AMI or below.
tion of a new rental unit once projects with a considerable number of market-rate, public-owned or public-subsidized units are excluded.

Table A-3 shows that the per unit cost subsidy required for the construction of new rental units in 2005 dollars goes down by $4,481 when projects with considerable numbers of market-rate, public-owned or public-subsidized units are excluded. Basing our per unit cost subsidy figures on a sample of projects which did not include considerable numbers of market-rate, public-owned or public-subsidized units would have reduced the annual amount of new construction subsidies needed by approximately $9 million out of a total amount of $172.7 million. This finding confirms that projects with considerable numbers of market-rate, public-owned or public subsidied units are more costly to develop compared to projects with regular units, but not by much.
Appendix II:
Analysis of Rental vs. Owner New Units

This appendix explains in detail our analysis of the rental/owner breakdown of all new units created by the MHFA programs between 2003 and 2005. For this analysis, we used all the MHFA programs that contributed to the creation of new affordable housing units regardless of the type of assistance these programs provided. This meant including some of the projects that were excluded from our previous calculations.

We included all the multi-family projects that received rental assistance or operating subsidies in our analysis to account for all the new rental units subsidized by the MHFA.216 We also included all the single-family projects that received subsidies outside the Super RFP process for the creation of new units. These single-family projects, which received down payment or mortgage assistance, were included to account for all the new owner units subsidized by the MHFA.

Based on our own analysis of the projects funded by the MHFA through the Super RFP process and the MHFA's own analysis of the new units created

Table A-4: Rental/Owner Breakdown of All the New Affordable Housing Units Funded by the MHFA, 2003-2005

<table>
<thead>
<tr>
<th></th>
<th>Multi-Family Projects</th>
<th>Single-Family Projects</th>
<th>Rental Percentage</th>
<th>Rental Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Units Serving People with Incomes less than or equal to 30% of AMI</td>
<td>1089</td>
<td>367</td>
<td>601</td>
<td>5</td>
</tr>
<tr>
<td># of Units Serving People with Incomes between 30% and 50% of AMI</td>
<td>262</td>
<td>393</td>
<td>165</td>
<td>150</td>
</tr>
<tr>
<td># of Units Serving People with Incomes between 50% and 60% of AMI</td>
<td>272</td>
<td>295</td>
<td>481</td>
<td>130</td>
</tr>
<tr>
<td># of Units Serving People with Incomes greater than 60% of AMI</td>
<td>52</td>
<td>30</td>
<td>30</td>
<td>170</td>
</tr>
</tbody>
</table>

All projects are funded through the Super RFP Process.


216 We also intended to include all the multi-family projects that received subsidies outside the Super RFP process. However, we found that the programs that provided subsidies outside the super RFP process were limited to rehabilitation activities and created no new units during the period under investigation. Consequently, we did not include the units served by these programs.
by its various home ownership programs, we identified the number of new rental and owner units affordable to people in four different income brackets.\textsuperscript{217} Table A-4 summarizes the rental/owner breakdown of the newly created affordable units by income.\textsuperscript{218}

\textsuperscript{217} MHFA research staff provided the income breakdown of all the new units subsidized by the MHFA ownership programs outside the Super RFP process.

\textsuperscript{218} In FY 2006, 30 percent, 50 percent and 60 percent of the Twin Cities metropolitan area median family income were $22,410, $37,350, $44,820, respectively. For the same fiscal year, 80 percent of the state’s non-metropolitan area median family income was $44,080.