HOUSING AMERICA'S RESIDENTS

Finance, lending and county tax policy

October 2023

About the National Association of Counties

The National Association of Counties (NACo) strengthens America's counties, serving nearly 40,000 county elected officials and 3.6 million county employees. Founded in 1935, NACo unites county officials to:

- Advocate county priorities in federal policymaking
- Promote exemplary county policies and practice
- Nurture leadership skills and expand knowledge networks
- Optimize county and taxpayer resources and cost savings, and
- Enrich the public understanding of county government.

NACo's Mission

Strengthen America's Counties.

NACo's Vision

Healthy, safe and vibrant counties across America.

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Acknowledgments

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THE BASICS OF FINANCE, LENDING AND COUNTY TAX POLICY FOR HOUSING AFFORDABILITY

To successfully develop new housing, maintain existing housing stock and navigate housing support systems, counties require financing, funding tools and flexibility. Property taxes are the primary driver of most county finances , so counties have a strong incentive to optimize land use and the tools to do so. Additionally, some counties work with financial institutions or leverage federal programs to provide direct support or incentives to developers and individuals. Looking holistically at county finance, tax and policy touchpoints can help to foster housing affordability.

There are four interrelated aspects of the county role in housing finance:

County Aid to Developers: Counties may provide direct assistance to developers to help them build units that are market-rate affordable, while still turning a profit. This assistance may take various forms, including below-market financing, gap financing and capital subsidies. New developments often span the range of single-family homes, duplexes, multiplexes, mid-rise buildings and everything in between.

County Aid to Potential Homeowners and Renters: Counties may also provide assistance to residents looking to purchase a home or needing rental assistance. First-time homebuyers, especially, may lack the resources to move from renting to homeownership. Counties may provide down payment or closing cost assistance in the form of loans or grants, or counties may provide alternative subsidized mortgage options. Counties may also provide rental assistance to support individuals or landlords in achieving affordability.

Revenue Sources and Housing Trust Funds: County may use dedicated revenue sources (taxes or fees) to fund the development of housing units directly, or to provide aid to developers or residents. Often, a housing trust fund will receive the funding to ensure it is invested into housing. Typically, these funds are connected to the housing market in some way, whether as demolition taxes, condo conversion fees, linkage fees or affordable housing impact fees. Some counties may opt for general obligation bonds for a larger, one-time investment.

County Tax Policies: Counties may incentivize housing development using a variety of tax policy tools, depending on state law, including abatements, exemptions and deed restrictions. Some counties may wish to examine their entire system of taxes and fees and consider strategies like land value taxation or split-rate taxation as alternatives to encourage housing development.

DIRECT ASSISTANCE FOR NEW HOUSING DEVELOPMENTS AND REHABILITATION PROJECTS

Local governments are increasingly stepping into the housing market to encourage the development of home which are more affordable for residents, especially "missing middle" type housing, such as duplexes, town homes and other multi-family units. Some counties are influencing the housing market by providing housing developers with gap and/or below-market financing. Counties may also be able to provide capital subsidies to encourage affordable housing more directly. These incentives help developers make enough profit on the project to move forward with it, despite market forces that may otherwise prove restricting and point them toward more expensive housing.

Below-Market Financing

Some counties may subsidize housing developments by providing loans to developers with lower interest rates than may be available in the private market – known as **"below-market financing".** Thus, the overall cost of repaying the debt is lessened for the developer, allowing them to charge less for rent or sell for a lower sale price. As the loans are repaid, the funds may be loaned out again to help future developers. Since the loans must eventually be repaid, below-market financing does not have as much of an impact as a capital subsidy but is a more sustainable program long term.

Before implementing such a program, counties should consider the availability of private financing options. Furthermore, the county should consider whether it has the capacity to manage the loan process, or if not, what partners are available to help manage the portfolio. Counties should also consider this type of program in conjunction with other programs, as one layer among many that seek to increase housing affordability.[1]

Appraisal Gap Financing

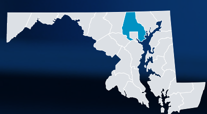
Low-cost housing markets may experience challenges where the cost to purchase and/or rehabilitate a home exceeds its appraisal value. Since banks typically do not lend more money to purchase a home than the home's appraisal value, borrowers may not be able to afford the purchase. **Appraisal gap financing** provides either a grant or a loan to cover the gap between appraisal and market value. It is often used for homes that need some amount of rehabilitation, especially in neighborhoods that have experienced disinvestment.[2]

Capital Subsidies

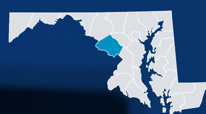
Rather than loan out the funds to developers, counties may also provide direct **capital subsidies** to reduce the cost of developing affordable housing. The subsidies may take the form of grants, forgivable loans or tax credits, but all ultimately reduce the amount of debt a borrower needs to take on when building housing units. Counties should evaluate the risks involved in investing in such developments and establish high standards and a thorough application review process to mitigate the risk. Counties should also consider eligibility requirements for developments and impacts on the housing market when thinking about subsidies.[3]

INNOVATIVE FINANCING THROUGH REVOLVING LOAN FUNDS

One sustainable method for providing financing to developers is through a **revolving loan fund.** The county would provide loans to developers from this fund, then replenish the fund when these loans are repaid with interest. Revolving loan funds typically provide gap financing and loans in secondary position to a bank or other lender. They may also be used to provide assistance to homebuyers.

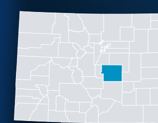


Baltimore County (Md.) invested $16 million of ARPA funding into a revolving loan fund, called the "Housing Opportunities Fund." Through this fund, the county may acquire and convey privately-owned land, including vacant, abandoned and foreclosed properties, to affordable housing developers, income-eligible individuals and nonprofit housing providers.[4]



Nearby **Montgomery County (Md.)** dedicated a pool of $14 million in its Affordable Housing Opportunity Fund for developers to acquire and preserve affordable housing at risk of losing its affordability.[5]

Santa Barbara County (Calif.)'s Housing Trust Fund operates a $7.6 million Revolving Loan Fund to provide below-market interest rate loans to developers.[6]



El Paso County (Colo.) issued revenue bonds to establish a revolving loan fund for first-time homebuyers. This program, called, the "Single Family Turnkey Plus Mortgage Program," provides a forgivable down payment assistance loan in the form of a soft second mortgage at 0 percent interest, due only when the first mortgage is paid off.[7]

COUNTY SOLUTIONS SPOTLIGHT: DIRECT AID FOR HOUSING PROJECTS

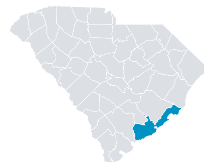
FRANKLIN COUNTY, OHIO

Franklin County launched its Affordable Housing Magnet Fund in 2019 to spur private investment in housing and to revitalize low-income neighborhoods. The fund provides gap financing for eligible development projects, and as of 2022, has helped provide residents with homes by supporting 11 affordable housing developments consisting of 802 new rental units. To fund this project, the board of commissioners increased the real property transfer tax by 10 cents (per $100 of value) and dedicated this additional revenue to the Magnet Fund. Eligible projects create new affordable units, whether by constructing new homes or renovating existing units that were not previously rent- or income-restricted, or occupied. Projects must also be successfully awarded an allocation of 4 percent Low-Income Housing Tax Credits from the Ohio Housing Finance Agency (OHFA).[8]

SAN DIEGO COUNTY, CALIF.

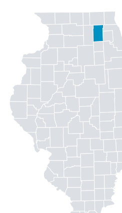
In 2017, **San Diego County** launched its Innovative Housing Initiative, resulting in the creation of over 2,000 units in five years. Through the fund, the county has provided over $50 million to developers for the construction of nearly 1,400 units for low-income families, veterans, people with disabilities and seniors across 15 communities. The county set up its Innovative Housing Trust Fund to provide gap financing to developers that create or preserve affordable housing. In 2023, the county announced an additional $25 million allocation to the fund.[9]

CHARLESTON COUNTY, S.C.



Charleston County allocated $30 million in ARPA funds toward housing with $11.5 million provided for gap financing to affordable housing developers. The largest developer recipient, Bridge North Charleston, plans to build 20 townhouses and sell them at below-market prices to buyers with low- to moderate- incomes. Other recipients of gap financing assistance include One80 Place, a nonprofit that aims to use the financing to construct a 70-unit apartment building for individuals who have experienced homelessness, and the Humanities Foundation, who aims to use the financing to convert a former school into an 82-unit apartment building for low-income elderly residents.[10]

KANE COUNTY, ILL.



Kane County established an Affordable Housing Fund to provide gap financing for the preservation or development of affordable housing for middle- and lower-income households. The county awards financing to projects that create affordable workforce housing in reasonable proximity to employment centers, projects that create high-quality housing in areas of the county characterized by substandard and/or high-cost housing and to projects that reduce the number of foreclosed properties negatively impacting the neighborhood image. This fund provides flexible financing to non-profit and for-profit developers for the acquisition, rehabilitation or new construction of both homebuyer and rental units.[11]

COUNTY AID TO SUPPORT INDIVIDUALS AND FAMILIES ACHIEVE HOUSING AFFORDABILITY

Aside from helping developers build more market-rate affordable homes, counties may also increase housing accessibility by helping residents purchase homes. First-time homebuyers often face significant barriers in purchasing a home, since they lack the capital from a previous home to cover a down payment and/or closing costs. This challenge is increasing for younger homeowners, who are confronted with decades of housing price increases that have outpaced wage gains. But homeownership is an important entry point for building wealth and economic stability, which many counties have recognized in implementing programs to help residents purchase homes.

Down Payment and Closing Cost Assistance

One of the most common barriers to homeownership is the upfront cash needed to provide a down payment and pay for closing costs. A family may be able to afford the monthly mortgage payment, but lack the savings for these upfront costs. Counties may help families and residents become homeowners through grants or loans that cover these costs – i.e., **through down payment and closing cost assistance.** Loans can be no- or low-interest rate or deferred until the home is sold or refinanced. Some programs provide forgivable loans if the resident meets certain requirements, such as residing in the home for a specific duration. In general, loans are more of an administrative burden to the county than grants, but the benefits of being able to help more residents when the loans are repaid may outweigh the oversight costs.[12]

Mortgage Programs

Counties may help residents finance their homes through a variety of mechanisms. Most simply, counties may provide **subsidized home mortgages** with a reduced interest rate, making homeownership more accessible for lower-income households, especially first-time homebuyers. Typically, these programs also have relaxed underwriting requirements and lower borrowing costs, and the loans are given through a local housing finance agency. Counties may also provide **shared appreciation mortgages** to make homeownership more accessible. Generally, the county will provide a deferred loan, which to be repaid in full when the home is sold or the first mortgage is refinanced, along with a share of the home price appreciation.

Alongside subsidizing the cost of a home, some counties provide **small-balance home mortgages** to residents wishing to purchase a home under $100,000, since the private market typically does not provide mortgages for less than that amount. Residents often need to take out a different type of loan for these low-value homes. Counties may wish to partner with local banks to help provide this service.

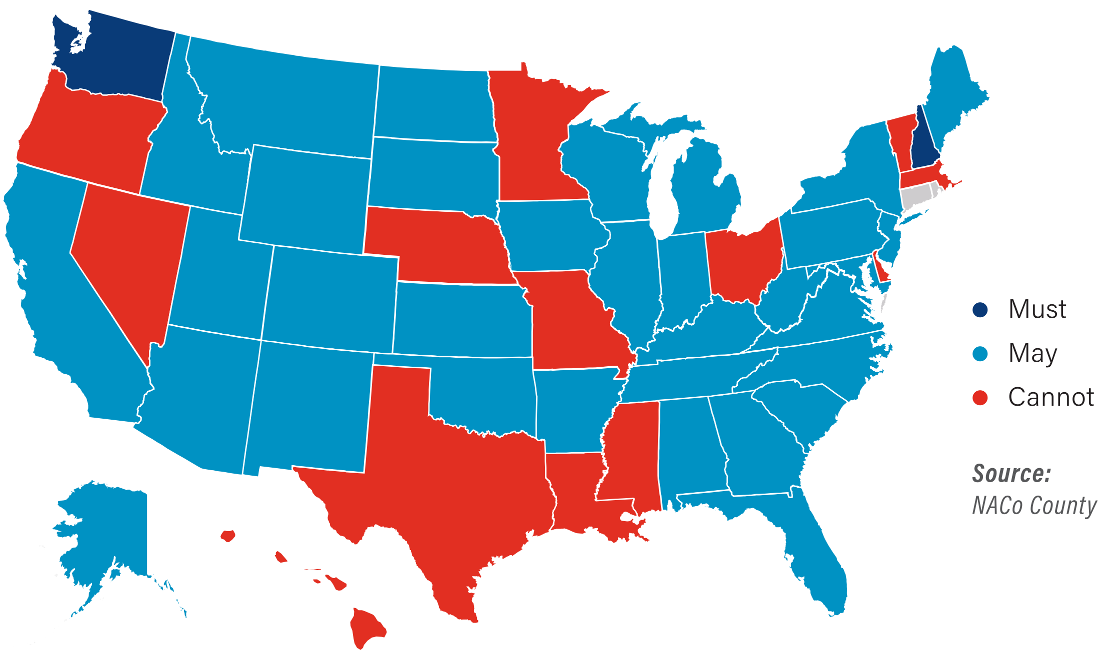
Finally, one option to target specific low-income and/or marginalized populations is through a **special purpose credit program** – which can provide special homebuying assistance, whether in the form of a grant or loan, to residents in specific neighborhoods or of a specific race/ethnicity, who may have more challenges accessing credit than other residents. Eligibility is purposefully left to the discretion of local officials and can be either "people based" or "placed based", but either way should be based on local analyses of housing challenges. The federal government authorized these types of programs through the Equal Credit Opportunity Act in 1974.[13]

Rental Assistance

Not every resident is able to or wants to own a home. For low-income renters, counties may provide assistance to help homeless residents find a home and help families stay in their homes. As a first step, if a resident lacks savings, counties may provide **security deposit or first/last month's rent assistance.** Counties may also help cover other expenses, such as rental application fees, move-in fees, utility deposits and moving expenses. The combination of these initial costs may be a high enough barrier for some residents that they are unable to move into their neighborhood of choice, or even into any home at all. Once a resident is in a home, he or she may be able to receive assistance from **housing choice vouchers**, which are funded by the U.S. Department of Housing and Urban Development (HUD) but often administered locally by county housing authorities. Some counties may offer additional rental support through **local tenant-based rental assistance.** Local rental assistance programs are typically focused on emergency rental assistance to avoid evictions or to fill any gaps left by federal programs.[14]

MOST STATES PERMIT COUNTIES TO ESTABLISH A HOUSING AUTHORITY

County Housing Authority Laws, by State[1]

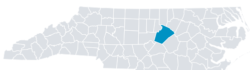


Source:
NACo County Governance Project, 2023

Across the 48 states with county governments, the county role in housing varies widely depending on the authority invested in each county by the state. Most states (35 states) permit counties to set up a housing authority – and one state (Washington) even requires all counties to have one. In most of the 10 states where housing authorities are a function of the state government, thecounty must grant approval or declare a need for thestate housing authority to operate within its borders.[15]

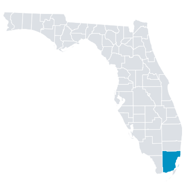
COUNTY SOLUTIONS SPOTLIGHT: AID TO SUPPORT INDIVIDUALS AND FAMILIES

WAKE COUNTY, N.C.



Wake County's Affordable Homeownership Program helps individuals and families purchase and stay in homes by providing forgivable no-monthly payment loans up to $50,000 to low- to moderate-income households. First-time homebuyers can use these funds to help purchase a home, and current homeowners can use the funds to prevent foreclosure.[15] This program serves residents at or below 80 percent of the area median income (AMI). The county allocated $475,000 to start the program but, to manage it, partners with DHIC, Inc. – a nonprofit organization that provides homebuyer support and develops rental communities.[16]

MIAMI-DADE COUNTY, FLA.



In **Miami-Dade County**, residents struggling to afford homeownership can look to the Housing Finance Authority (HFA) of Miami-Dade's Mortgage Program. The program offers lower-income residents the opportunity to buy a home through a 30-year, fixed rate, low-interest mortgage and up to $15,000 in down payment assistance in the form of a zero-interest second mortgage. The program has specific income and home purchase price limits, as well as minimum credit score and employment requirements. Alongside this program for homebuyers, the county offers a Naturally Occurring Affordable Housing (NOAH) Preservation Loan Program for current homeowners. Miami-Dade County incentivizes the preservation and rehabilitation of these existing units by providing financing to the owners of these properties with the goal of providing low- and moderate-income households with access to decent housing. The loan itself is a flexible loan with a below-market interest rate and can be tailored to meet the needs of owners and developers.[18]

MONO COUNTY, CALIF.

Mono County, in partnership with Mammoth Lakes Housing Incorporated, provides eligible first-time homebuyers the chance to become homeowners through down payment assistance. This down payment assistance is in the form of a secondary, deferred payment loan. This loan will have an interest rate between 0 percent and 3 percent and must be repaid only upon transfer of the property, during a refinancing of the property, or other qualifying events. To be eligible, the home may not have more than three bedrooms and two bathrooms, and the purchase price may not exceed $427,000.[19]

PLACER COUNTY, CALIF.

Placer County, developed a Workforce Housing Preservation Program, where the county pays homeowners up to 16 percent of the purchase price towards a down payment in exchange for deed restricting properties to local renters and buyers. Placer County initiated this program in 2021 with the goal of acquiring 50 deed-restricted homes each year to create a supply of housing reserved for the local workforce. The deed restriction lasts for 55 years and auto-renews with each transaction of the property. To be eligible, the homebuyer's gross annual income must be equal to or less than 120 percent of the county's median income, must have at least one household member who is currently employed 30 or more hours a week in the county and must have at least one household member whose work site is less than or equal to 20 driving miles from the property.[20]

LEVERAGING COUNTY REVENUE STREAMS TO ADVANCE LOCAL AFFORDABILITY GOALS

One common way county leaders will fund the development or preservation of safe, affordable homes is through a **housing trust fund,** usually with a dedicated source of county revenue to support the county services provided through the fund. When established at the county level, housing trust funds may be tailored to fit local needs. County leaders may examine their funding sources to ensure that they contribute positively to housing affordability, rather than exacerbate the crisis through additional taxes, fees or red tape that drive up home prices.

A housing trust fund may be structured as a new, separate county entity, administered by an existing nonprofit organization or housed with an existing county department (which is most common). These funds may be flexible in determining how to invest funding into housing (whether through grants, loans or other forms), how to evaluate applications and what revenue sources can provide funding.[21]

There are 157 county housing trust funds across 19 states (including 49 funds in Pennsylvania and 39 funds in Washington).[22] Alongside these county housing trust funds, there are another 122 city housing trust funds in 36 states, plus 189 jurisdictions participating in Massachusetts' statewide program and 296 jurisdictions participating in New Jersey's state program. Forty-two (42) states have also created at least one state-level housing trust fund with a dedicated funding source.

County Housing Trust Funds Can Source a Variety of Revenue Streams

Roof top fees	Pima County, Ariz.
Developer fees or proffers, including impact or approval fees	Five counties in California; San Miguel County, Colo.; Montgomery County, Md.; Arlington County, Va.; Fairfax County, Va.
Boomerang redevelopment funds	Alameda and Los Angeles counties, Calif.
Hotel/Motel taxes	Napa County, Calif.; Franklin County, Ohio
Interest and earnings or interest income	San Francisco City and County, Calif.; Santa Clara County, Calif.; Montgomery County, Md.
Real estate transfer tax	Pitkin County, Colo.; Howard County, Md.; Fairfax, Va.; San Juan County, Wash.
General sales taxes	Pitkin, Summit and San Miguel counties, Colo.; Montgomery County, Ohio
Specific sales taxes, such as a food and beverage tax or a sales tax on medical marijuana	Miami-Dade County, Fla.; St. Louis County, Mo. (respectively)
Condominium conversion tax	Montgomery County, Md.
Specific property tax	Kalamazoo County, Mich.; Wake County, N.C.
Document recording fee	Eight counties in New Jersey, 49 counties in Pennsylvania and 39 counties in Washington
Construction excise tax	Hood River County, Ore.

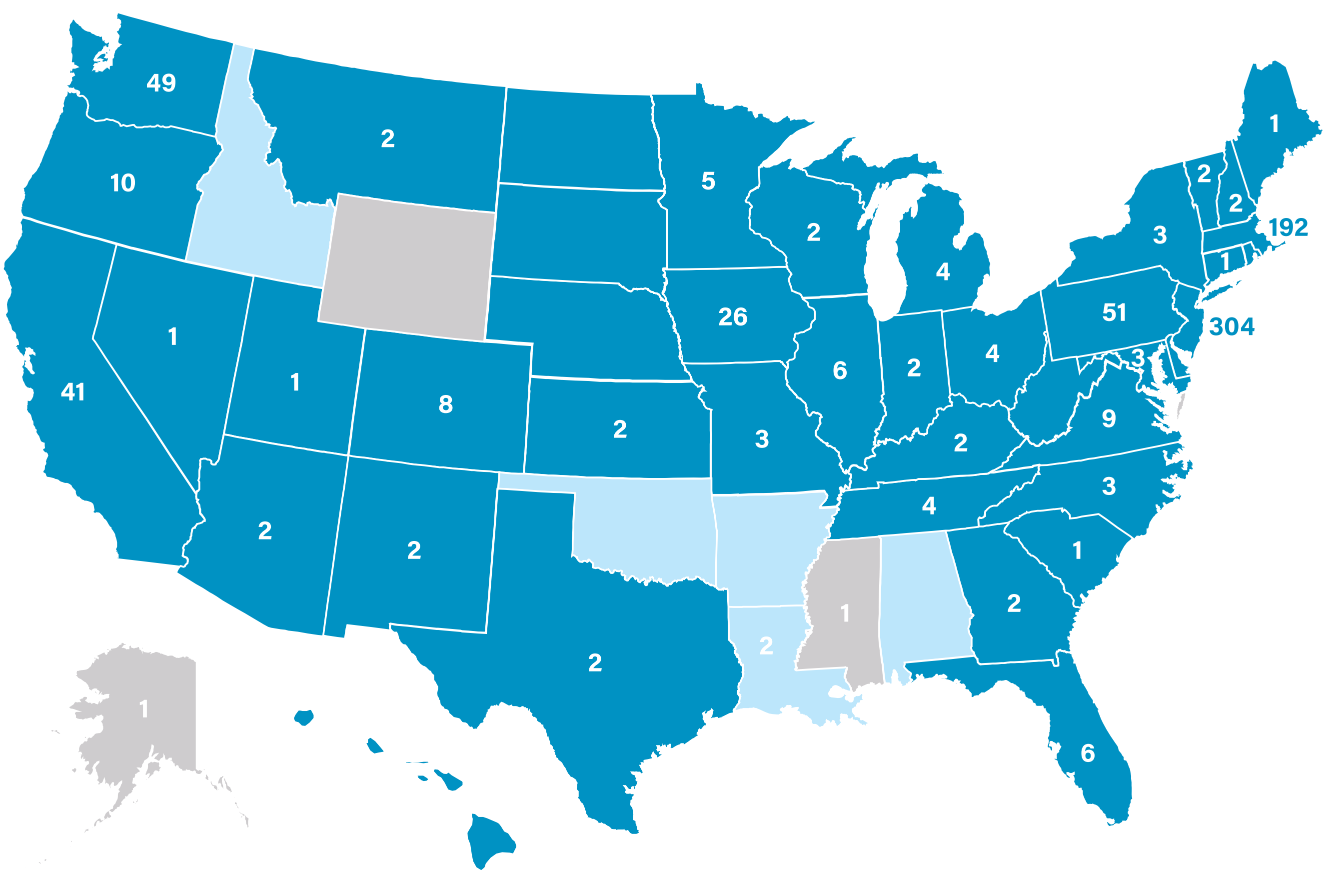
Source: *Community Change, Housing Trust Fund Project (2022), https://housingtrustfundproject.org/housing-trust-funds/county-housing-trust-funds/*

HOUSING TRUST FUNDS PROVIDE A FLEXIBLE METHOD FOR COUNTY LEADERS TO ADDRESS CRITICAL AFFORDABILITY CHALLENGES

County housing trust funds are funded by a variety of sources, many of which are in some way connected to the real estate market. These revenue sources are representative of the types of funding sources counties typically use to fund the development or preservation of affordable homes, whether through a housing trust fund or a separate program. Some counties may also use a dedicated budget line in the general fund for affordable housing or may fund the work through private and public donations, rather than having a specific, dedicated funding source. In either case, it is important for counties to ensure any fees or taxes charged at not to the net detriment of the goal of housing affordability.

THERE ARE 763 LOCAL HOUSING TRUST FUNDS NATIONWIDE

Number of Local Housing Trust Funds in Each State, 2022.



Source: Community Change, Housing Trust Fund Project (2022), https://housingtrustfundproject.org/housing-trust-funds/

● State housing trust fund

● State housing trust fund with no funding

Dedicated Revenue Sources

It is helpful for counties to use a **dedicated revenue source** for affordable housing development. Although the amount each year may fluctuate, a dedicated source tends to provide more funding for housing than annual appropriations in the long run, due to its stability. Most often, dedicated revenue sources are related in some way to property or real estate development, but they do not need to be. In a high-tourism area, a county may wish to use a sales tax or a hotel/motel tax to pass the cost of affordable housing to visitors and non-permanent residents. Dedicated revenue sources, however, may not always provide the funding needed. If a community is struggling economically, it may not have the amount of real estate or economic activity necessary to generate adequate revenue for housing.[23]

Demolition Taxes and Condo Conversion Fees

Demolition taxes and condo conversion fees are two common sources of dedicated revenue for affordable housing. Both types of revenues can help replace the affordable housing stock lost to these activities. **Demolition taxes** are typically levied on property owners who tear down residential buildings – usually to replace the older or smaller units with larger, more expensive homes. Developers pay **condo conversion fees** when they convert affordable rental housing to homeownership units. These revenue sources function best in strong housing markets, especially in counties with many older homes. Before implementing demolition taxes or condo conversion fees, county leaders should consider local policy goals and the community's current housing situation. In some counties, demolition of old, unsafe, dilapidated units may be beneficial, and something the county may wish to encourage. Demolition taxes alone may inhibit economic development in these cases, and counties may implement systems to grant exemptions or waivers such that any fees imposed do not become a disincentive. Other counties, however, may have livable units that can be preserved as naturally-occurring affordable housing – in which case, local leaders may want to consider higher demolition taxes to encourage preservation, rather than using these taxes for revenue generation, though not so high as to discourage property owners from maintaining high-quality homes.[24]

Linkage Fees and Affordable Housing Impact Fees

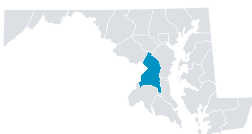
Another two common sources for dedicated revenue for affordable housing are linkage fees and affordable housing impact fees. On the one hand, **linkage fees** are assessed on non-residential development which will help create jobs, and so generate a need for affordable housing. On the other hand, **affordable housing impact fees** are assessed on residential development that is considered market-rate or luxury. The rationale is that these developments, too, will create demand for additional jobs, and so also create demand for affordable housing. Some counties use these fees in place of inclusionary zoning policies. It is important that county leaders work with business leaders and developers to minimize any unintended consequences, especially if commercial development is a policy goal of the community. Even with broad political and community support, counties may wish to consider developing a study of the connection between demand for affordable housing and commercial and residential development.[25]

General Obligation Bonds

In contrast to dedicated revenue sources, which may provide smaller amounts of funding over longer periods of time, some counties may find that **general obligation bonds** for housing affordability are more effective, especially if county leaders wish to make a large, one-time investment. These bonds generally need voter approval, so county leaders will need to consider the political support of the community, and they may also need to consider the county's limits if there are other ongoing projects.[26]

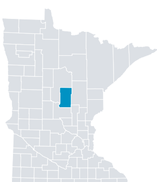
COUNTY SOLUTIONS SPOTLIGHT: COUNTY REVENUE AS A CATALYST FOR HOUSING AFFORDABILITY

PRINCE GEORGE'S COUNTY, MD.



Prince George's County helps residents find housing they can afford through a Housing Investment Trust Fund. The Fund operationalizes a "Right of First Refusal" policy,[27] which says that any building being sold with 20 units or more must be first offered to the county. With this policy in place, the county preserved over 2,000 affordable units in two years, mostly in transit-oriented areas.

CROW WING COUNTY, MINN.

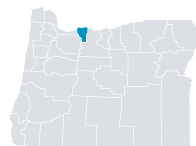


Crow Wing County established a countywide housing trust to help residents in very low-, low- and moderate-income households acquire housing. The county is committing $500,000 annually from a property tax levy toward this fund. The housing trust fund provides loans to property owners, homeowners, local units of government, for-profit housing developers and non-profit housing developers for the acquisition, capital and soft costs necessary for the creation of affordable and workforce housing.[28]

KALAMAZOO COUNTY, MICH.

Kalamazoo County approved an increase of 0.75 mills to its property tax levy for a housing millage to support individuals and families struggling to afford a home in the county. The additional millage will provide $6.2 million annually for eight years to the Local Housing Assistance Fund, for a total of $49.6 million. This fund will support housing by investing in rental assistance, permanent housing and supportive services.[29]

HOOD RIVER COUNTY, ORE.



Hood River County took advantage of additional flexibilities that the state of Oregon gave to counties in 2017 to better serve residents in need of housing through a construction excise tax, with revenues dedicated to affordable housing programs. Oregon's Senate Bill 1533 permits counties and cities to enact an excise tax on residential and commercial developments, for the sake of funding housing programs. Following the passage of this bill, Hood River County implemented a 1 percent tax on new construction, collected at the time that the county issues building permits, to devote to affordable housing initiatives.[30]

NAPA COUNTY, CALIF.

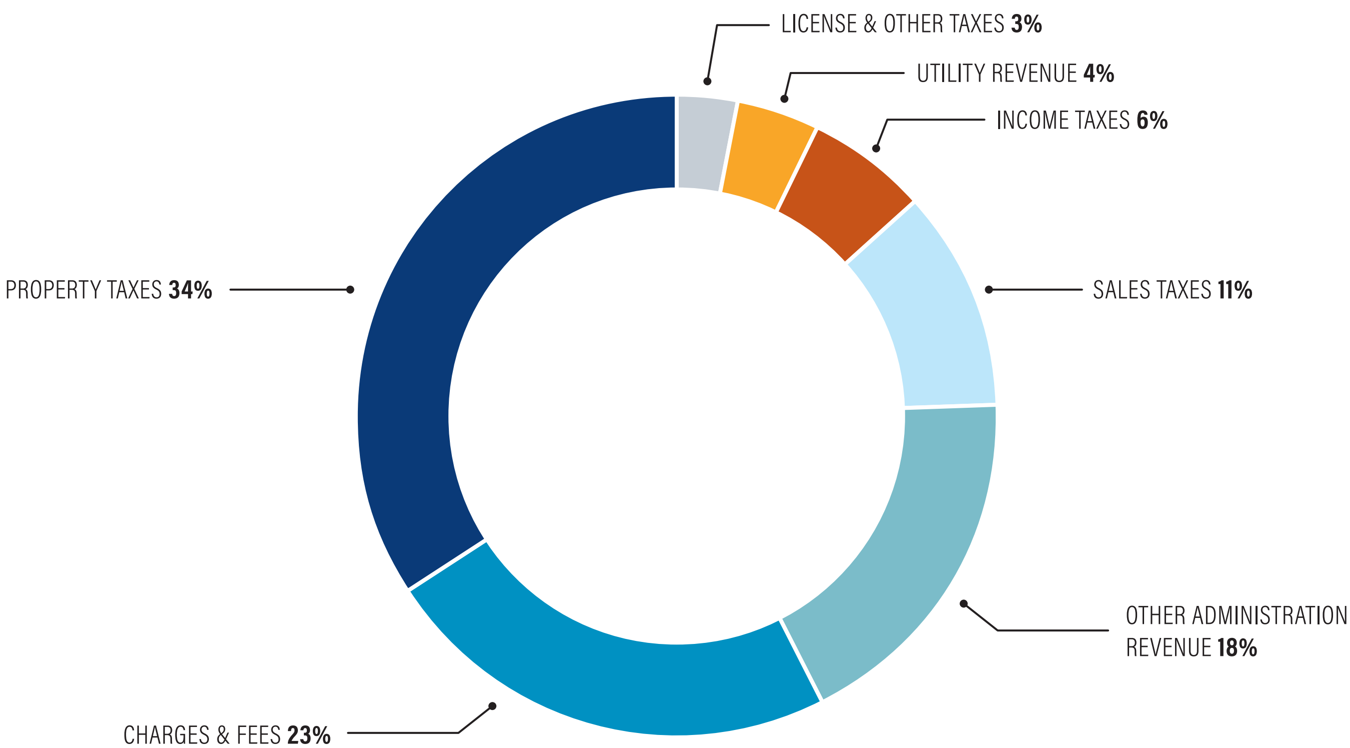
Napa County, which relies heavily on its tourism industry, raises general fund revenues through a Transient Occupancy Tax on hotels, motels, Airbnb homes and other temporary lodging facilities. Recognizing the impact of tourism on home prices and the challenge it poses for local workers and families, residents approved a 2018 measure which increased the tax from 12 percent to 13 percent and dedicated the additional proceeds exclusively to workforce and affordable housing initiatives. In FY2022, the Napa County raised nearly $15 million through this tax, helping its Affordable Housing Fund balance – which is also supported by various building fees – increase to about $40 million.[31, 32]

USING COUNTY TAX POLICY TO FOSTER LOCAL AFFORDABILITY

Property taxes are the overall top source of revenue for counties, providing over $158 billion in funding to county governments each year. Although nearly every state enacts some restrictions on county government authority over property taxes, many counties still have sufficient flexibility to incentivize the development of affordable housing through property taxes. Temporary tax abatements or assessment exemptions are common tools available to most counties within the current system of property taxation. These tools can encourage both new development and redevelopment of vacant or blighted properties. Some counties, however, may wish to consider larger, structural changes to their property tax system and enact land value or split-rate taxation.

PROPERTY TAXES ARE THE TOP SOURCE OF COUNTY REVENUE

Breakdown of County-Generated Revenue Sources



Source: *NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance*

By focusing property taxation on land values, these changes more naturally encourage property owners to develop unused or underutilized parcels to maximize their return on investment, without concern for a higher property tax bill. Other related strategies, such as deed restrictions, can also help contribute to housing affordability. When considering any strategies or tools connected with property taxation, county leaders may first wish to examine the short- and long-term revenue impacts, since counties tend to rely on property tax revenue to provide most services.

Tax Incentives

Counties have various taxation tools available to help encourage development. Some offer **tax abatements,** which lower property taxes for a specific period of time on new residential development. This is a common strategy employed in counties working to incentivize large-scale, high-rise developments by requiring a ratio of market rate to AMI-anchored affordable units to trigger the abatement. Other counties may offer **assessment exemptions**, by temporarily exempting increases in assessed property value from taxes to encourage new construction and substantial repairs and upgrades. Both strategies can also help encourage rehabilitation of older, dilapidated homes. Before enacting abatements or exemptions, counties should examine the balance of property tax revenue with providing a meaningful incentive.[33]

Land Value Taxation

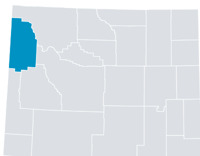
As an alternative to traditional property tax systems, l**and value taxation** is based on the value of the underlying land, not anything built on the land. Under this system, a vacant lot would be taxed the same as a multi-family apartment building, thus discouraging property owners from holding empty or undeveloped sites for speculation and encouraging improvements to underutilized properties without concern for increased taxes. Some counties may use a **split-rate taxation** system as a step toward land value taxation, where land is taxed at a higher rate than anything built on it. Both of these types of taxation require significant public engagement, since the impacts would vary greatly throughout the community.[34]

Deed Restrictions

One strategy that counties can use to preserve a home's long-term affordability is **deed restrictions.** This type of restriction, which is usually temporary – up to a few decades – is included in the homeowner's deed and limits both the subsequent sale price and the eligibility of the future buyer. Typically, the homeowner is permitted to retain some of the home price appreciation, depending on the details of the program and specific price needed for the home to remain affordable to future buyers.[35]

COUNTY SOLUTIONS SPOTLIGHT: COUNTY TAX POLICIES AND INCENTIVES

TETON COUNTY, WYO.



Teton County is helping local workers who are struggling with inflated housing prices through various deed restrictions. The county's Workforce Ownership Deed Restriction is a deed restriction purchase for households who already own their home and wish to permanently protect their home for the local workforce. In return for permanent workforce ownership on the home, the Housing Authority can pay households up to $200,000. Appreciation for these homes is set by the Consumer Price Index (CPI), not exceeding 3 percent annually. The county also offers the Workforce Rental Deed Restriction, which is a deed restriction for entities (businesses, individuals, etc.) who already own a unit and wish to permanently protect the unit for the local workforce. These units must be rented to a member of the local workforce and may not be owner-occupied. In return for a permanent Workforce Rental Deed Restriction, the housing authority can pay a household up to $100,000.

CITY AND BOROUGH OF JUNEAU, ALASKA

The City and Borough of Juneau provides several tax abatement opportunities to help developers build more affordable homes for residents by temporarily lowering property taxes on these projects. The Downtown Tax Abatement provides a 12-year tax abatement for projects that develop at least four new residential units in downtown Juneau. The Senior Assisted Living Tax Abatement provides a 12-year tax abatement for projects that provide at least 15 new residential units of assisted living for senior citizens. The Subdivision Property Tax Abatement provides a tax abatement for five years to property owners who subdivide a single parcel into at least three parcels and make improvements to the properties. The High-Density Tax Abatement provides a 12-year tax abatement for projects that develop at least four new residential units in the urban service area.[36]

DUPAGE COUNTY, ILL.

DuPage County offers a homestead tax exemption to aid individuals and families who live in county by reducing the net taxable assessed value by a maximum of $8,000. Additionally, the county offers a Housing Opportunity Area Tax Abatement. This program may provide a reduced assessed valuation for certain property leased to a Housing Choice Voucher holder. There is a 10-year maximum abatement.

MAUI COUNTY, HAWAII

Maui County adopted changes to its property tax system, creating the "'Aina Kupuna" program to protect long-term property owners from losing their family homes due to increasing assessed values based on neighboring luxury properties. To qualify for this program, the property must have been owned wholly or partially by the same family for at least three generations. The county also added an incentive to encourage long-term rentals, by providing a break in assessed value and property taxes on those properties.[37]

ENDNOTES

[1] For more information, see Local Housing Solutions, "Below-market financing of affordable housing development," available at: https://localhousingsolutions.org/housing-policy-library/below-market-financing-of-affordable-housing-development/

[2] For more information, see Local Housing Solutions, "Appraisal gap financing," available at: https://localhousingsolutions.org/housing-policy-library/appraisal-gap-financing/

[3] For more information, see Local Housing Solutions, "Capital subsidies for building affordable housing developments," available at: https://localhousingsolutions.org/housing-policy-library/capital-subsidies-for-building-affordable-housing-developments/

[4] Baltimore County, Md., SLFRF Compliance Report for Q4 2022, available at: https://bcgis.baltimorecountymd.gov/Images/Hub/ARPA/PEReport5.pdf See also Baltimore County, Md., "Housing Opportunities and Finance," available at https://www.baltimorecountymd.gov/departments/housing/housing-opportunities/

[5] Montgomery County, Md., Affordable Housing Opportunity Fund webpage, available at: https://www.montgomerycountymd.gov/DHCA/housing/multifamily/affordable_housing_opportunity_fund.html

[6] The Housing Trust Fund of Santa Barbara, Revolving Loan Fund for Affordable Housing webpage, available at: https://www.sbhousingtrust.org/revolving-loan-fund-for-affordable-housing

[7] El Paso County, Colo., Single Family Turnkey Plus Mortgage Program webpage, available at: https://admin.elpasoco.com/economic-development/single-family-turnkey-mortgage/; and the program's Administrator Guidelines, available at: https://programs.ehousingplus.com/wp-content/uploads/El-Paso-Guide-Rev-01-27-22.pdf

[8] Columbus-Franklin County Finance Authority, "Collaboration Boosts Affordable Housing Projects (June 2022), available at: https://development.franklincountyohio.gov/EDP-website/media/Documents/Economic%20Development/Magnet%20Fund/2022/2022-Magnet-Fund-Competitive-Application-Process-v2-Publish.pdf; and Franklin County Affordable Housing Magnet Fund's Competitive Application Process (May 2022), available at https://columbusfinance.org/news/collaboration-boosts-affordable-housing-projects/

[9] San Diego County, Calif.'s Annual Report 2021-22 Highlights, available at: https://www.sandiegocounty.gov/content/sdc/annualreport/en/highlights/housing_accessibility_and_affordability.html; and San Diego County's Notice of Funding Available (NOFA) for Affordable Housing Construction, Acquisition and Rehabilitation (April 2023), available at: https://www.sandiegocounty.gov/content/dam/sdc/sdhcd/new-docs/CD/IHFT_NOFA_6th_Round_2023_FINAL.pdf

[10] David Slade, "Charleston County spending $10.2M to boost affordable housing developments," The Post and Courier (May 2023), available at: https://www.postandcourier.com/news/charleston-county-spending-10-2m-to-boost-affordable-housing-developments/article_11735940-bc4a-11ed-b305-a30c8045cf44.html

[11] Kane County, Ill., Affordable Housing Fund webpage, available at: https://www.countyofkane.org/Pages/ocr/AHF.aspx

[12] For more information, see Local Housing Solutions, "Down payment and closing cost assistance," available at: https://localhousingsolutions.org/housing-policy-library/downpayment-and-closing-cost-assistance/

[13] For more information, see Local Housing Solutions, "Small balance home mortgages," "Shared appreciation mortgages," "Subsidized home mortgages" and "Special Purpose Credit Programs," available at: https://localhousingsolutions.org/housing-policy-library/small-balance-home-mortgages/, https://localhousingsolutions.org/housing-policy-library/shared-appreciation-mortgages/, https://localhousingsolutions.org/housing-policy-library/subsidized-home-mortgages/ and https://localhousingsolutions.org/housing-policy-library/special-purpose-credit-programs/ (respectively).

[14] For more information, see Local Housing Solutions, "Security deposit and/or first and last month's rent assistance," "Housing choice vouchers" and "State or local funded tenant-based rental assistance," available at: https://localhousingsolutions.org/housing-policy-library/security-deposit-and-or-first-and-last-months-rent-assistance/, https://localhousingsolutions.org/housing-policy-library/housing-choice-vouchers/ and https://localhousingsolutions.org/housing-policy-library/state-or-local-funded-tenant-based-rental-assistance/ (respectively).

[15] Note on legend: "Must" signifies that counties must or shall have a county housing authority according to state law. "May" signifies that it is optional for a county to have a housing authority. "Cannot" signifies that counties are prohibited by state law from having a housing authority, often because the state or municipalities own and manage housing authorities.

[16] DHIC, Wake County Affordable Homeownership Program webpage, available at: https://dhic.org/homeownership-center/wake-county-and-dhic-partner-to-secure-the-dream-of-homeownership/

[17] The foreclosure prevention aspect of the program has been on hold since January 2023.

[18] Housing Finance Authority of Miami-Dade County, Homebuyers webpage, available at: https://www.hfamiami.com/homebuyers; Miami-Dade County, Fla., Naturally occurring Affordable Housing (NOAH) Preservation Rehabilitation Loan Program (December 2020), available at: https://www.miamidade.gov/housing/library/notices/noah-brief.pdf and https://www.miamidade.gov/housing/library/notices/noah-booklet.pdf

[19] Mono County, Calif., Home Program Down Payment Assistance for Homeownership, available at: https://mammothlakeshousing.org/wp-content/uploads/2021/10/HOME-Mono-County-2021_one-page.pdf

[20] Placer County, Calif., Workforce Housing Preservation Program webpage, available at: https://www.placer.ca.gov/7130/Workforce-Housing-Preservation-Program

[21] For more information, see Local Housing Solutions, "Housing trust funds" available at: https://localhousingsolutions.org/housing-policy-library/housing-trust-funds/

[22] Housing Trust Fund Project, "County Housing Trust Funds" (2022), available at: https://housingtrustfundproject.org/housing-trust-funds/county-housing-trust-funds/

[23] For more information, see Local Housing Solutions, "Dedicated revenue sources," available at: https://localhousingsolutions.org/housing-policy-library/dedicated-revenue-sources/

[24] For more information, see Local Housing Solutions, "Demolition taxes and condominium conversion fees," available at: https://localhousingsolutions.org/housing-policy-library/demolition-taxes-and-condominium-conversion-fees/

[25] For more information, see Local Housing Solutions, "Linkage fees/affordable housing impact fees," available at: https://localhousingsolutions.org/housing-policy-library/linkage-fees-affordable-housing-impact-fees/

[26] For more information, see Local Housing Solutions, "General obligation bonds for affordable housing," available at: https://localhousingsolutions.org/housing-policy-library/general-obligation-bonds-for-affordable-housing/

[27] For more information on "Rights of First Refusal" policies, see Local Housing Solutions, "Rights of First Refusal," available at: https://localhousingsolutions.org/housing-policy-library/rights-of-first-refusal/

[28] Crow Wing County, Minn., Crow Wing County Housing Trust Fund, available at: http://brainerdhra.org/housing-trust-fund/

[29] Kalamazoo County, Mich., Housing Plan (July 2022), available at: https://www.kalcounty.com/housing/pdf_files/Kalamazoo%20County%20Housing%20Plan%20final%208.15.22.pdf

[30] Oregon Housing and Community Services, Residential* Construction Excise Tax (September 2021), available at: https://www.oregon.gov/ohcs/homeownership/PublishingImages/Pages/homeownership-publications/09-03-2021-Residential-Construction-Excise-Tax%20kf%20ah.pdf; and Michael Anderson, "Hood River Sixth Oregon Jurisdiction to Enact Construction Excise Tax to Fund Housing", Housing Trust Fund Project (2017), available at: https://housingtrustfundproject.org/hood-river-sixth-oregon-jurisdiction-to-enact-construction-excise-tax-to-fund-housing/

[31] Napa County, Calif., "Transient Occupancy Tax," available at: https://www.countyofnapa.org/1266/Transient-Occupancy-Tax#:~:text=This%20tax%20is%20levied%20for,of%20Napa%20County%20is%2013%25

[32] Napa County, Calif., "Comprehensive Annual Financial Statement for the Fiscal Year Ended June 30, 2022", available at: https://www.countyofnapa.org/ArchiveCenter/ViewFile/Item/802

[33] For more information, see Local Housing Solutions, "Tax incentives for new construction and substantial rehabilitation," available at: https://localhousingsolutions.org/housing-policy-library/tax-incentives-for-new-construction-and-substantial-rehabilitation/

[34] For more information, see Local Housing Solutions, "Land value taxation," available at: https://localhousingsolutions.org/housing-policy-library/land-value-taxation/

[35] For more information, see Local Housing Solutions, "Deed-restricted homeownership," available at: https://localhousingsolutions.org/housing-policy-library/deed-restricted-homeownership/

[36] City and Borough of Juneau, Alaska, CBJ Tax Abatement Programs webpage, available at: https://juneau.org/community-development-2/grants-cbj-tax-abatement-programs

[37] Keani Rawlins-Fernandez "'Āina Kūpuna Bill Aims to Keep Ancestral Lands in Kānaka 'Ōiwi Hands," Maui County, Hawaii (October 2021), available at: http://www.mauicounty.us/councils-3-minutes/aina-kupuna-bill-aims-to-keep-ancestral-lands-in-kanaka-oiwi-hands/

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