

Building Homes

County Funding for Affordable Housing

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Glossary of Terms

AFFORDABLE HOUSING: The U.S. Department of Housing and Urban Development (HUD) designates housing as affordable if the gross costs to live in that housing unit, including utilities, do not exceed 30 percent of the gross income of the resident(s).¹

AREA MEDIAN INCOME (AMI): To determine whether housing costs or rents are affordable for residents of a certain community, HUD uses the area median income (AMI). In a designated area, half of the population makes more than the AMI, and the other half makes less than the AMI. HUD designates households to certain income groups based on their income relative to the AMI:²

- "Extremely Low Income": Below 30 percent of AMI
- "Very Low Income": Below 50 percent of AMI
- "Low Income": Below 80 percent of AMI
- "Moderate Income": Between 80 and 120 percent of AMI

Note: All these levels are adjusted based on how many people are in a household.

DENSITY BONUS: In their zoning ordinances, counties often include restrictions on the number of housing units that developers can build in a certain area. To encourage the development of affordable housing, counties may grant density bonuses to developers that allow them to build additional units beyond what is ordinarily permitted in exchange for something that will benefit the community – such as a certain number of affordable housing units.³

DEVELOPER IMPACT FEE: The American Planning Association defines impact fees as payments new developments make to counties or other local governments to provide new or expanded public capital facilities that the development will need. These fees are calculated based on the nature and size of the development, as well as the cost of the facilities needed, and may take into consideration the demand for affordable housing the new development will generate.⁴

HOUSING TRUST FUND: The Housing Trust Fund Project defines housing trust funds as separate, independently-operated funds established by state, county or other local governments to support the preservation and production of affordable housing. These funds have ongoing dedicated sources of public funding, as opposed to an annual budget allocation. Funding may come from dedicated fees or taxes, or it may come from the local government's general revenue. Generally, county housing trust funds provide grants or loans to developers through a formal request for proposal (RFP) process. A board or advisory committee comprised at least partially of county leaders oversees the work of a fund.⁵


SOCIAL IMPACT BOND (SIB): Social impact bonds, also called "pay for success" programs, allow county governments to pay only when programs achieve predefined objectives and measurable goals. Instead of forming an agreement to pay an organization upfront for the services it provides, counties agree upon a set of desired outcomes, and then pay the outside organization according to the outcomes it achieves. Expanding housing affordability is one of the many ways counties use SIBs.

INCLUSIONARY ZONING (IZ): According to HUD, inclusionary zoning practices refer to any kind of policy or ordinance that requires or encourages developers to set aside a certain percentage of housing units in a new or rehabilitated project for low- and/or moderate-income residents. IZ policies help to integrate lower-income residents with higher-income residents so that all have access to the same high-quality services and amenities.⁶

Introduction

Across the U.S., county residents are facing a crisis of housing affordability. In 2016, over one third of all homes (34 percent) were unaffordable for those living in them.⁷ According to the U.S. Department of Housing and Urban Development (HUD), if residents are spending more than 30 percent of their household income on housing costs, they are living in a home they cannot afford, which can take various forms.⁸ High mortgage payments or high rents relative to income is the basis for housing unaffordability, no matter the housing market of the area. In one county, a \$500,000 house may be affordable for most residents because of the area's high income levels, while in another county, a \$100,000 house may be more than most residents can afford. Housing affordability becomes a problem when too many homes are developed outside of the purchasing power range of residents. As a result, potential homebuyers delay buying a house for years as they try to save for a down payment while repaying student loans and paying exorbitant rents. Low-income renters teeter on the edge of eviction and homelessness when a sudden job loss, unexpected expense or death hits the family. Housing affordability is a challenge that confronts all types of counties on the ground.

This report presents an analysis of housing affordability at the county level, how rising costs affect county government operations and an overview of the county role in addressing the problem. Featured within are three case studies of counties that are implementing innovative solutions to fund the development and preservation of affordable homes across the nation: Nashville-Davidson County, Tenn.; the Texas Housing Foundation; and Hennepin County, Minn. In the face of decreasing levels of state and federal funding, counties are stepping up to fill in the funding gap and provide housing their residents can afford.



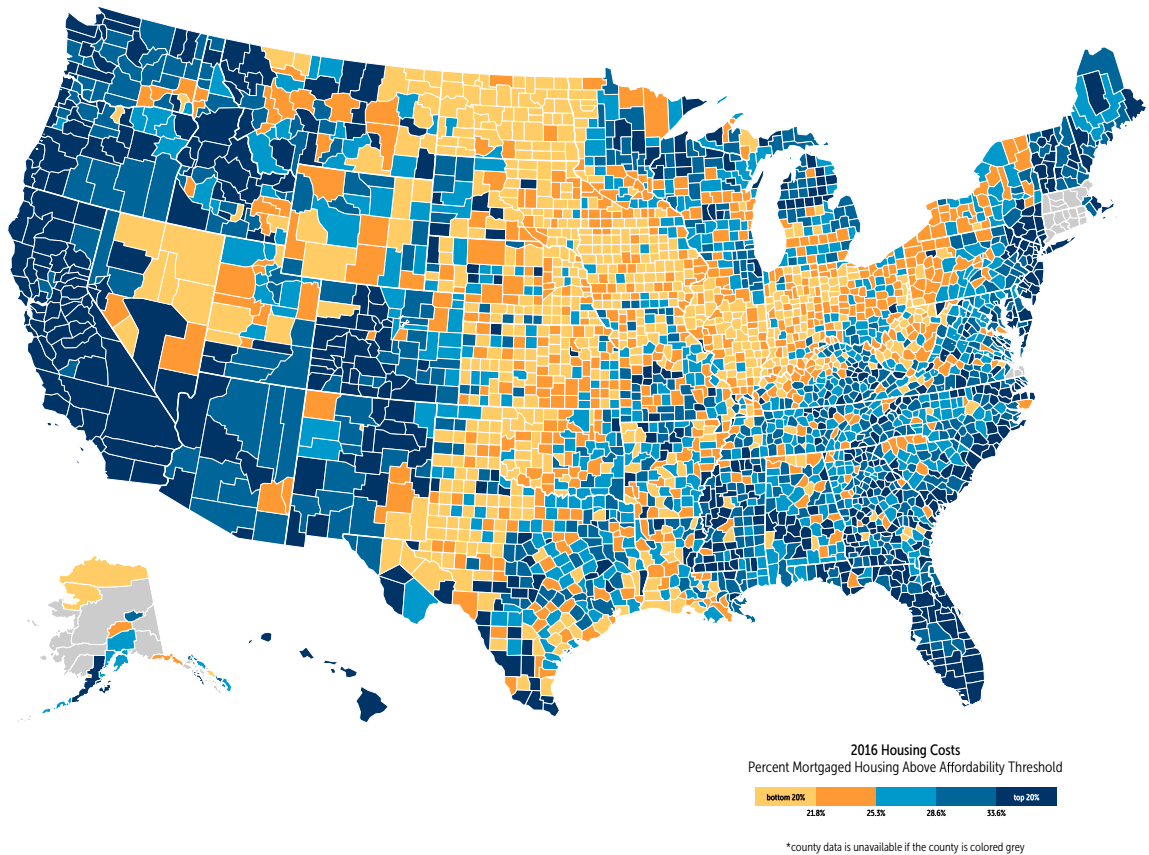
In 2016, over **one third**
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Housing Affordability Across Counties

The lack of affordable housing is a widespread problem across the U.S. In 2016, 31 percent of all households with mortgages were living in housing they could not afford (see Figure 1).⁹ Even among those who had completely paid off their home, 14 percent were spending more than 30 percent of their income on housing costs, such as property taxes and utilities. When looking at renters, this number jumps to 50 percent – the majority of renters in the U.S. were living in homes they could not afford in 2016 (see Figure 2).¹⁰

Housing affordability issues are confronting counties in every region of the country. These challenges are most pronounced in the West, where 36 percent of households with mortgages and 53 percent of renters were unable to afford their homes in 2016. However, other regions of the country were by no means exempt from these challenges: in 2016, from one quarter to over one third of homeowners with mortgages were unable to afford their homes in the Midwest (26 percent), South (29 percent) and Northeast (34 percent) regions.

Figure 1: Percent Mortgaged Housing Above Affordability Threshold, 2016



Source: NACo Analysis of U.S. Census Bureau – American Community Survey (ACS) 5-year estimates, 2016

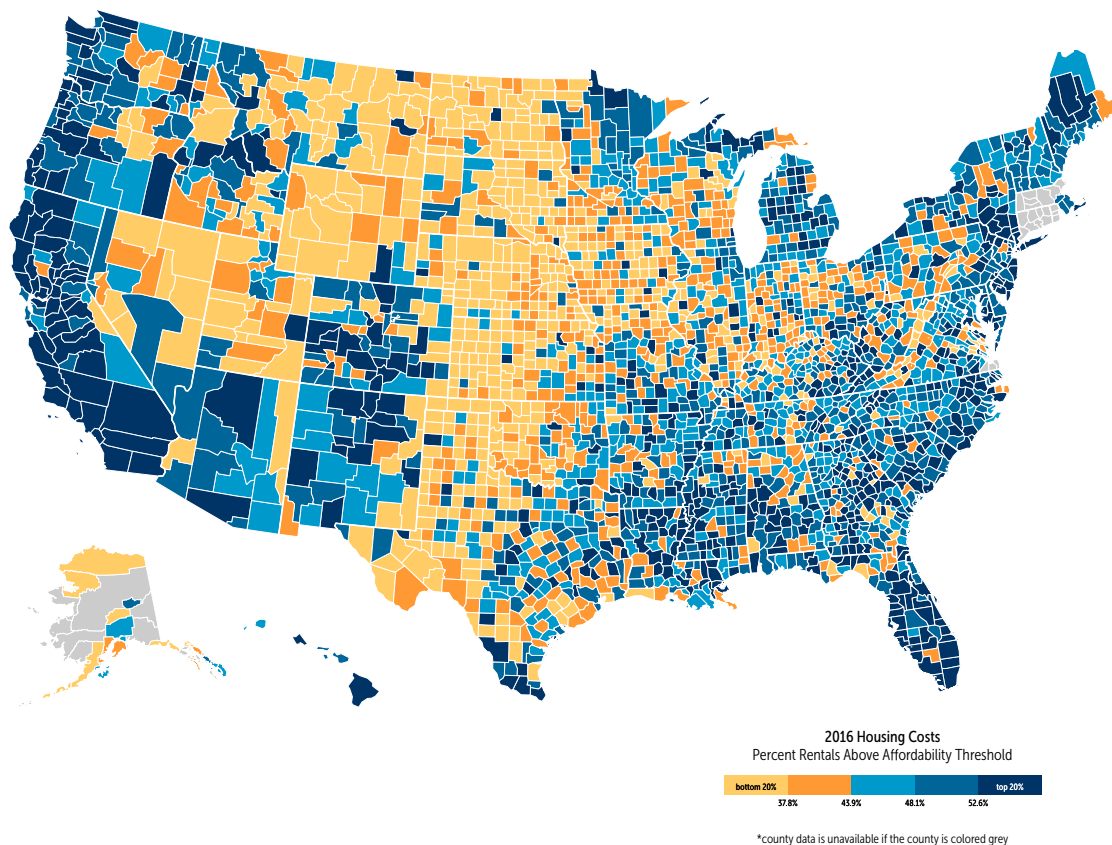
Notes: **Percent Mortgaged Housing Above Affordability Threshold** means the percent of housing units with a mortgage for which monthly owner costs are above 30 percent of household income. The U.S. Housing and Development Department (HUD) defines affordable housing as housing for which the occupants are not paying more than 30 percent of their income for gross housing costs. Housing units where monthly owner costs cannot be computed have been excluded. This report examines only counties with county governments. The dark grey areas in Conn., R.I., parts of Alaska, Mass. and Va. are counties or county-equivalents without county governments.

Likewise, that same year, approximately half of all renters were living in housing they could not afford in each of these three regions. Housing unaffordability, therefore, is a widespread problem across the entire country.¹¹

The challenge of housing affordability is not just a phenomenon of urban areas, but of suburban and rural areas, as well. Large counties – with populations of 500,000 residents or more – have the highest percentage of households with mortgages and renters living in homes they cannot afford (34 percent and 53 percent, respectively, on average). In over 700 small counties (with less than 50,000 residents) and 340 medium-sized counties (with populations between 50,000 and 500,000),

Nearly one third of households with mortgages and the majority of renters lived in housing they could not afford in 2016.

Figure 2: Percent Rentals Above Affordability Threshold, 2016



Source: NACo Analysis of U.S. Census Bureau – American Community Survey (ACS) 5-year estimates, 2016

Notes: **Percent Rentals Above Affordability Threshold** means the percent of occupied housing units for which monthly gross rent is above 30 percent of household income. The U.S. Housing and Development Department (HUD) defines affordable housing as housing for which the occupants are not paying more than 30 percent of their income for gross housing costs. Housing units where monthly owner costs cannot be computed have been excluded. This report examines only counties with county governments. The dark grey areas in Conn., R.I., parts of Alaska, Mass. and Va. are counties or county-equivalents without county governments.

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however, there is a higher percentage of residents in mortgaged homes or of renters living in housing they cannot afford than the national percentages (31 percent and 50 percent, respectively). Overall, approximately 28 percent of households with mortgages live in unaffordable homes in both medium-sized counties and in small counties. Half of renters in medium-sized counties and 46 percent in small counties also live in housing that is not affordable for them. Housing affordability problems may have hit large counties the hardest, but small and medium-sized counties are suffering from these effects to almost the same degree.¹²

When trying to combat rising housing costs, counties face different sets of challenges based on their population levels. High land costs in large, urban counties often

translate into problems finding land that is both available and not too expensive to develop into affordable homes, unless they are able to implement innovative zoning policies. Medium-sized, suburban counties often face opposition from residents because of misperceptions that building housing which is more affordable for lower-income residents means building large apartment buildings that will make their neighborhood feel more like a city. Finally, small, rural counties may find themselves with large numbers of seasonal, migrant workers who need temporary housing, and areas of high rural poverty may have limited available houses that are also livable. There is no one-size-fits-all solution for housing affordability; rather, the problems counties face vary greatly and require a wide range of innovative programs and partnerships.



Impact of Housing Affordability on County Operations

County governments are inextricably linked to affordable housing because of the role they play in housing. Most county governments collect property taxes and provide property assessments. They also often provide much of the regulatory framework around housing, from planning and zoning to administering building permits. Furthermore, county governments provide a range of health and human services on which homeless and low-income populations rely. Housing, therefore, is a prime concern for counties.

From county budgets to the services that counties provide their residents, housing affordability has wide-ranging effects on county operations. When the prices of homes near job centers are too high for the workforce, residents end up commuting long distances each day for work, thereby wearing down county transportation infrastructure more quickly. Between 1990 and 2016, the average commute time in the U.S. increased by 17 percent, from 22.4 minutes to 26.1 minutes.¹³ This change is significant because county governments own and maintain 46 percent of America's public roads and over 38 percent of all bridges.¹⁴ The more use that roads and bridges receive, the more often counties need to maintain and repair them. In counties where housing costs are especially high, some of the workforce may even work in one county but live in a neighboring county where housing is more affordable.

Aside from county transportation infrastructure, high housing costs place pressure on county social services. A county without affordable housing for all levels of income can experience increased levels of homelessness, as residents with very low incomes are pushed out of their homes with no other housing options they can afford. Although not all low-income residents may be in danger of homelessness, as rents and property values increase, many may find themselves in an unstable housing situation, where the loss of a job, a medical emergency or even one missed paycheck can result in an eviction. Housing instability can lead to employment instability, when individuals struggle to keep a job under the stress of a potential or an actual eviction.¹⁵ Housing instability impacts family health and

From 1990 to 2016, the average commute time across the U.S. increased by 17 percent.

educational outcomes for children, affecting county residents – and service delivery systems – over the long-term.¹⁶

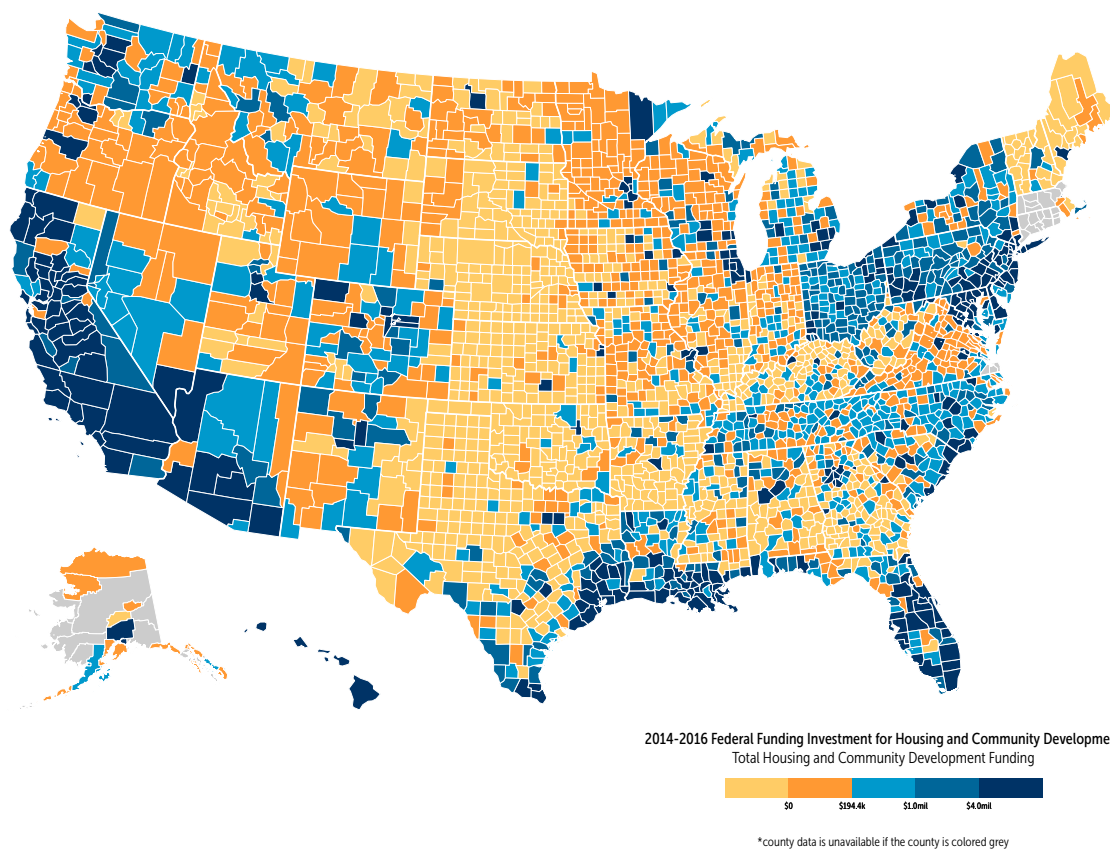
Furthermore, housing affordability affects county economies. In the short-term, when county governments invest in and promote the development of affordable homes, they generate jobs directly in the fields of construction, architecture and engineering, as well as indirectly in local restaurants, retail stores and other businesses once people move into the new homes. A study by the New York State Association for Affordable Housing (NYSFAFH) found that between 2011 and 2015, affordable housing projects created 329,400 jobs and generated \$54.5 billion in new economic activity.¹⁷ In the long-run, affordable housing has even greater effects on a county's economy. Residents living in housing they can afford will be more stable in their employment, counties will be better able to attract a more talented workforce and businesses will be more likely to locate in areas with housing that is affordable for their employees. Affordable housing, therefore, has direct economic benefits on counties.

County Role in Funding Affordable Housing

Counties play a major role in housing for their nearly 314 million residents, and the partnership between them, states and the federal government is of utmost importance. From 2014 to 2016, 1,421 counties invested over \$15.5 billion of federal funding for housing and community development initiatives (see Figure 3).¹⁸ The top three programs from which this funding originated were

Community Development Block Grants (CDBG) (nearly \$5.7 billion), Section 8 Housing Assistance Payments Program (nearly \$3.7 billion) and the HOME Investment Partnerships Program (HOME) (over \$2.5 billion). These three programs made up over three-quarters (76 percent) of the total federal funding invested by counties in housing and community development from 2014 to 2016.

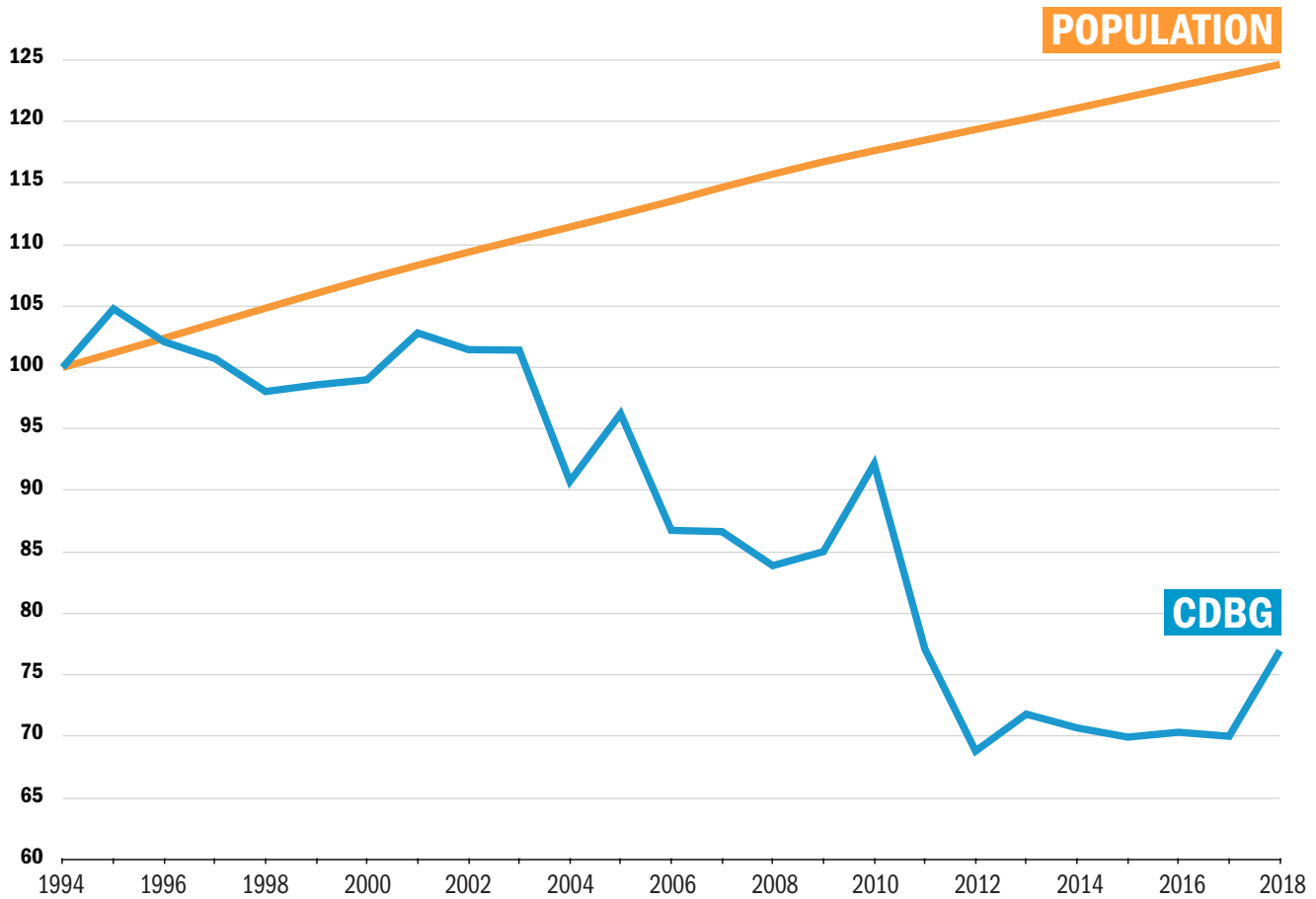
Figure 3: 2014-2016 Federal Funding for Housing and Community Development Invested by Counties



Source: NACo Analysis of Federal Audit Clearinghouse Data, 2014-2016.

Notes: **Total Housing and Community Development Funding** means the total federal funding invested by a county government for housing and community development between 2014 and 2016, received either directly or through the state or other entity. The map reflects only county governments that invested more than \$500,000 in federal dollars during fiscal year 2014 or at least \$750,000 during fiscal years 2015 or 2016. Counties marked in yellow reflect county governments that did not file a single audit report between 2014 and 2016. Amounts as reported by the county government in the Single Audit report submitted to the U.S. Office of Management and Budget (OMB). This report examines only counties with county governments. The dark grey areas in Conn., R.I., parts of Alaska, Mass. and Va. are counties or county-equivalents without county governments

Figure 4: CDBG Funding vs. U.S. Population, 1994-2018



Source: NACo Analysis of U.S. Department of Housing and Urban Development (HUD) data, 2018; NACo Analysis of Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis, 2018.

Notes: This graph shows the change in Community Development Block Grant (CDBG) funding (in current U.S. dollars) and in population on a comparable scale using 1994 as the base year (year 1994 = 100). The Federal Reserve Bank of St. Louis uses data from the U.S. Census Bureau for population.

However, declining federal and state funding has put pressure on county budgets, and caused county leaders to look for new ways to close the funding gap. For example, based on HUD data, total CDBG funding decreased by 23 percent from 1994 to 2018 (see Figure 4).¹⁹ Over that same period, the U.S. population increased by 25 percent.²⁰ Given these changing dynamics, counties must increasingly find ways to leverage local resources to provide affordable housing for their residents.

Counties can leverage resources through various local funding sources, including county housing trust funds. According to the Housing Trust Fund Project, there are currently over 135 county housing trust funds across 16 states, which collected over \$100 million in FY2015, and, on average, leveraged \$8.50 for every dollar they invested

in affordable housing.²¹ The primary revenue source for the majority of county housing trust funds was a document recording fee, but many also received funding from sales taxes, developer impact fees, real estate transfer taxes, restaurant taxes and property taxes.²²

Other counties use social impact bonds – also known as “pay-for-success” programs – to fund the development of affordable homes based on the results the developer achieves, rather than paying a set cost upfront. Typically, an investor will contribute the initial funding for a project, then the county will capture the savings the project produces to repay the investor in the future. For example, an investor may use his or her own funding to develop affordable homes and thereby reduce the costs of county hospital and jail operations. Once the county has

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realized these savings, it will, in turn, pay back the investor for the affordable homes using a portion of the savings generated from reduced hospital and jail costs.

Alongside housing trust funds and SIBs, counties also commonly use commercial linkage fees, developer impact fees, demolition fees and tax increment financing (TIF) to fund the development of affordable housing, among other fees, taxes and revenue sources.

Counties play a major role in land use planning, zoning and other regulations that affect housing. These policies help regulate growth in the county and encourage development patterns that will benefit all residents while still preserving the county's natural resources. Many counties also have authority over zoning laws, subdivision regulations, the timing of development and permitting pro-

cedures – all of which can be used to increase housing affordability. They can enact inclusionary zoning policies and density bonuses to encourage developers to build affordable units and keep a certain percentage of the units affordable for a set period. Counties can simplify the permitting process and make sure all regulations are clear to reduce delays and construction costs for developers. Some counties even own and manage their own housing units, which they rent out at affordable prices.

Although county leaders across the country face many kinds of financial pressures each day, they are on the forefront of innovative ideas to expand housing affordability. County governments have a wide-ranging toolkit to encourage the development of affordable homes by providing funding, a conducive regulatory environment and zoning incentives to developers.



From 2014 to 2016,
1,421 counties invested
over **\$15.5 billion** of federal
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The Metropolitan Government of Nashville and Davidson County, Tenn.

2017 Population Level: 691.2k

2016 Unemployment Rate: 3.6%

2016 Median Home Value: \$177.7k

2016 Median Gross Rent: \$904

2016 Median Household Income: \$50.5k

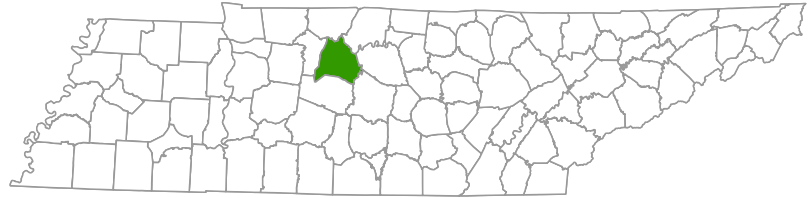
2016 Percent Mortgaged Housing Above Affordability Threshold: 29%

2016 Percent Rentals Above Affordability Threshold: 48%

Source: NACo County Explorer data, 2018

Interviewees:

- Morgan Mansa, Executive Director, Barnes Housing Trust Fund
- Adriane Bond Harris, Director, Mayor's Office of Housing



“Counties in Tennessee must be creative in encouraging private property owners to preserve existing or to build new affordable homes where housing demand far exceeds supply.”

– The Hon. Brett A. Withers, Metro Council Member, Nashville-Davidson County, Tenn.

Context

Over the past decade, Nashville-Davidson County, Tenn. has faced numerous challenges to its housing market. The Great Recession of 2007-2008, alongside the corresponding housing crisis, hit the county's housing market hard. Extreme flooding in 2010 also destroyed many homes, and disaster response funding was not enough to help every resident recover from the damage and loss. By 2016, nearly one third (29 percent) of mortgaged homes and nearly half (48 percent) of rentals housed residents who could not afford the monthly costs.²³

While natural and economic disasters were affecting Nashville-Davidson County's housing market, county mayors before 2015 focused on encouraging economic development to revitalize the county. As a result, large companies relocated their headquarters into the county, and the once-relaxed housing market became more aggressive throughout the 2000s and 2010s. Additionally, the interviewees explained that wage growth has not increased in Nashville-Davidson County at the same pace as housing prices, causing severe cost burdens and displacement. In fact, from 2017 to 2018, the median home price increased by 8 percent, while wages increased by just 2 percent.²⁴ With all these issues,

county leaders decided to tackle housing affordability to help their residents find stable housing.

Solution

To address the need for affordable housing, county leaders created the Barnes Housing Trust Fund in 2013. The fund serves both homeowners who are making below 80 percent of the AMI and renters making below 60 percent of the AMI (\$59,900 and \$44,940 for a household of four, respectively, as of 2018).²⁵ The Barnes Fund works exclusively with nonprofits to rehabilitate dilapidated homes or to construct new ones. The Metropolitan Council of Nashville-Davidson County ("Metro Council") approved the creation of the fund by passing a local ordinance, which also allows the fund to donate land for the development of affordable homes. This type of ordinance was unique in Tennessee, so the Metro Council had to first lobby the Tennessee state legislature before being able to implement it.

The Barnes Housing Trust Fund was initially funded by a combination of federal funding (e.g., Urban Development Action Grant repayments), grants and donations, totaling

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over \$2 million. In 2014, Mayor Karl Dean and the Metro Council dedicated \$500,000 from Nashville-Davidson County's general fund to supplement the federal funding commitment. The previous mayor, Mayor Megan Barry, increased the funding commitment to \$10 million annually, and the following administration continued that trajectory. The Barnes Fund receives funding from fees on short-term rentals as well as the proceeds from any major sale of county property made by Nashville-Davidson County. If these two items do not add up to \$10 million, the Mayor and Metro Council contribute the remainder from the county's general fund. In 2017, the Barnes Fund had a budget of \$15 million, however, because the county sold an old convention center for \$5 million, and the former mayor decided to use that \$5 million increase the Barnes Fund's budget that year.

In addition to the Barnes Housing Trust Fund, the county introduced three new programs in 2017 to further address housing affordability. The Housing Incentive Pilot Program (HIPP) focuses on workforce housing – which the county defines as housing for residents making between 60 percent and 120 percent of the AMI (\$44,490 and \$89,880 for a household of four, respectively, as of 2018).²⁶ HIPP works with private developers to bring down the prices of existing housing units within the downtown core and along major corridors. The program provides the developer or owner with the difference between the market rate unit and a workforce housing unit. For example, if a developer needs \$1,500 per month in rent for a unit, but a teacher's salary can only afford \$1,000 per month, HIPP will contribute the remaining \$500 per month to the developer/owner. Currently, HIPP does not have any dedicated funding source; rather, the mayor and Metro Council have committed \$450,000 to HIPP from the general fund.

The mayor and Metro Council also recently allocated \$25 million in general obligation bonds to invest in affordable housing by acquiring and rehabilitating existing multi-family rental units or developing units that serve a gap in the affordable housing market using county-owned land. One example of this concept is a partnership in which Nashville-Davidson County used county-owned land in a transitioning neighborhood (Edgehill) to support the development of 150 workforce housing units for residents making between 60 and 120 percent of the AMI. Finally, the Barnes Fund is in the process of developing the county's first community land trust (CLT). For the CLT, the county will donate

a large parcel of land, hire staff and invest funding to build affordable homes. Through the CLT, the county will partner with their local community development financial institution (CDFI) and give the CDFI ownership of the land and housing units. The CLT will receive its initial funding from the Barnes Housing Trust Fund and will leverage funding from other resources.

All four of these programs to expand housing affordability are operated by the Mayor's Office of Housing. The Office of Housing works very closely with the Metropolitan Development Housing Authority (MDHA), their Public Housing Authority, because MDHA administers the federal dollars from CDBG, HOME and Housing Opportunities for Persons with AIDS (HOPWA), among others, on behalf of Nashville-Davidson County. The Mayor's Office of Housing also works very closely with various county departments, including the Planning, Finance, Codes and Legal Departments. The Office of Housing is working to expedite the approval process for affordable housing by working with these departments, thereby saving both time and money for themselves and for their partners.

Outcomes and Challenges

Since 2015, Nashville-Davidson County has invested or committed over \$50 million toward affordable housing development, creating or preserving over 2,000 homes throughout the county. Since it began in 2013, the Barnes Housing Trust Fund has invested over \$27 million of county dollars, and it has leveraged the fund by over \$127 million from federal, state and private sources. Using these funds, the Fund has developed over 1,300 housing units. The Barnes Fund has also launched a Non-Profit Capacity Building Program and increased non-profit participation by over 50 percent. Finally, the Fund has donated over 70 lots to non-profits to be developed into affordable housing units, both for renters and future homeowners.

Expanding housing affordability in Nashville-Davidson County has its challenges. The county often faces opposition from residents in certain districts who think that they have enough affordable housing in their area, even when that is not the case. County staff, therefore, engages the community as much as possible, quantifying the problem and hosting tours of different affordable housing sites, to overcome this sentiment and to dispel myths about affordable housing.

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Another significant challenge for the county has been state preemption, particularly around local hiring and inclusionary zoning policies. For example, the Tennessee legislature has recently preempted the city's voluntary inclusionary zoning policy during its last session. The state legislature also taxes Low-Income Housing Tax Credit Developments (LIHTC) and non-profits developing affordable housing the same as conventional and market-rate housing. County officials send representatives to talk with the state legislature about such issues to try and find common ground.

Like many other large, urban counties, Nashville-Davidson County also faces the problem of escalating land costs, planning and zoning challenges, and the decrease of federal funding sources. Cities and counties across the country are trying to solve these issues on a local and large scale.

For other counties wishing to replicate the efforts of Nashville-Davidson County and expand affordable housing, Ms. Morgan Mansa and Ms. Adriane Harris recommend that counties work to collaborate with partners from community groups, non-profits and the private sector. The county has become comfortable asking people to be part of the solution, even if they were not initially interested in helping expand affordable housing, because ultimately, this issue affects all residents. The interviewees also emphasized the importance of being intentional with housing policies and programming. Local commitment to solving Nashville-Davidson County's affordable housing challenges has grown to the point that now, the county is seeing developers come in and include affordable units in their housing projects on their own, without using any county programs or funding.

“[Our residents] have made it clear that affordable housing is a top priority, which creates the positive environment needed to compile public and private resources.”

– The Hon. Colby Sledge, Metro Council Member,
Nashville-Davidson County, Tenn.



Ryman Lofts is Nashville-Davidson County's first affordable housing development with a preference for people pursuing a career in the arts.

Texas Housing Foundation

Counties: Bastrop, Blanco, Burnet, Hays, Llano and Williamson Counties, Texas

2017 Population Levels: Bastrop (84.8k), Blanco (11.6k), Burnet (46.8k), Hays (214.5k), Llano (21.2k), Williamson (547.5k)

2016 Unemployment Rates: Bastrop (3.7%), Blanco (3.1%), Burnet (3.5%), Hays (3.3%), Llano (4.1%), Williamson (3.3%)

2016 Median Home Values: Bastrop (\$142.1k), Blanco (\$192.0k), Burnet (\$163.8k), Hays (\$195.8k), Llano (\$169.2k), Williamson (\$209.4k)

2016 Median Gross Rents: Bastrop (\$909), Blanco (\$748), Burnet (\$835), Hays (\$992), Llano (\$741), Williamson (\$1,120)

2016 Median Household Incomes: Bastrop (\$55.8k), Blanco (\$56.6k), Burnet (\$54.3k), Hays (\$60.5k), Llano (\$48.6k) and Williamson (\$75.9k)

2016 Percents Mortgaged Housing Above Affordability

Threshold: Bastrop (33%), Blanco (34%), Burnet (36%), Hays (29%), Llano (34%), Williamson (24%)

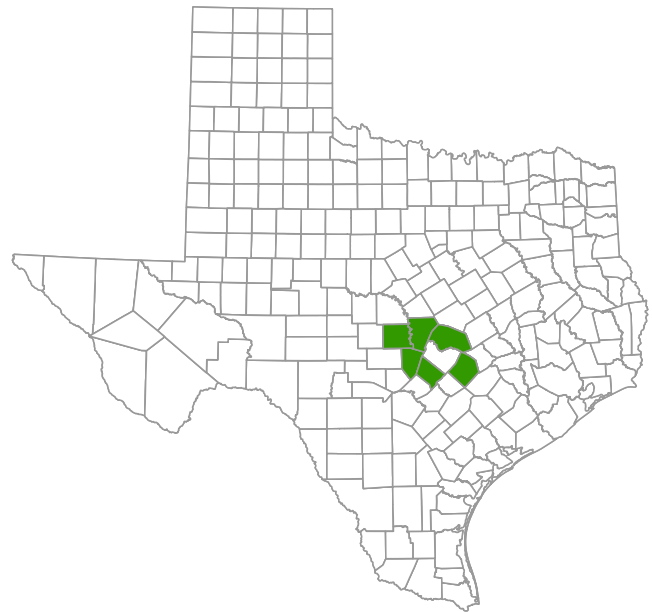
2016 Percents Rentals Above Affordability Threshold: Bastrop (47%), Blanco (32%), Burnet (44%), Hays (62%), Llano (48%) and Williamson (44%)

Source: NACo County Explorer data, 2018

Interviewee: Mark Mayfield, President and CEO, Texas Housing Foundation

Context

Surrounding Travis County, Texas, six counties have been experiencing some of the highest levels of population growth in the country. Bastrop, Blanco, Burnet, Hays, Llano and Williamson Counties were all in the top 10 percent of counties in terms of population growth from 2010 to 2017, with an average population growth rate of 18 percent.²⁷ Alongside these population increases have come increases in housing prices, resulting in housing costs beyond what many workers in the service industry and other blue-collar jobs can afford. In the six counties, on average, 32 percent of mortgaged homes and 46 percent of rentals housed residents who could not afford the housing costs in 2016. These six Texas coun-



“Act boldly and don’t be scared to do something different. The status quo is changing, and standard procedures will not always continue to function as well as before.”

– Mr. Mark Mayfield, President and CEO, Texas Housing Foundation

ties, therefore, are facing a dilemma in trying to provide affordable housing their residents.

Solution

In 2005, two small counties – Burnet and Blanco counties – decided to join forces to tackle housing affordability by forming the Texas Housing Foundation (THF), a regional housing authority. Texas state code allows for the creation of three types of housing authorities: those created by municipal or city governments, those created by county governments and regional housing authorities between at least two contiguous counties. A

few years later, Llano County joined in 2010, and earlier this year, Bastrop and Williamson counties also joined, bringing the collaboration up to five counties, with Hays County set to join later in the year. Alongside these six primary counties involved in the foundation, THF also has independent cooperative agreements with another 50 counties and municipalities. Through THF, these counties help to develop housing for residents who cannot afford the increasing housing costs.

THF enters into public-private partnerships (P3) with private developers to construct new housing units, as well as to occasionally acquire and rehabilitate homes. Each P3 is arranged differently, but through these agreements, THF brings private capital into the process to build or rehabilitate homes; then, THF maintains and owns the housing.

THF operates independently of the county governments and any other tax-levying body, including the federal government. The commissioners for each county choose one representative – who can be, but does not need to be, a member of the county commission – to sit on the foundation’s board, alongside one resident board member. Currently, THF is governed by a six-member board, though it will add a seventh member when Hays County joins. THF works closely with the different county development departments throughout the whole process to ensure they can maximize their impact on the area.

From the beginning, one of the primary goals of THF has been to avoid placing any additional financial burden on taxpayers. With that goal in mind, THF funds itself primarily through its own internal operations. THF brings in private capital from developers to build the housing, and it also receives funding by owning and managing various properties, like any other real estate business. What helped THF maintain its funding was scaling up and acquiring multiple properties to manage. Alongside its properties, THF also receives a percentage of developer fees. Although THF does not use any grants or other money from government sources to fund its operations, THF uses LIHTC, HOME and private activity bonds as funding sources for specific projects; in turn, they regulate their rents according to the requirements of the funding source. THF has managed to provide affordable housing for many residents without implementing additional taxes on its residents.



San Gabriel Crossing in Williamson County, Texas, is a 76-unit LIHTC family development built in 2011 and managed by THF.

Outcomes and Challenges

Through December 2017, the Texas Housing Foundation financed over \$300 million to develop or acquire over 3,000 homes across Texas. In 2017 alone, THF acquired a 60-unit LIHTC family project, a 372-unit LIHTC portfolio and a 352-unit Catholic Charities portfolio. The foundation also co-developed an 80-unit family project with LIHTC. This year, THF is in the process of acquiring a 612-unit USDA Rural Housing Service portfolio across Texas and 302 units in the city of Austin, and it is also co-developing a 96-unit family project. Currently, THF manages close to 50 properties in different areas of Texas.

One of the biggest challenges that THF has faced over the years has been to prove its legitimacy as an organization to the public and other local governments. Most housing authorities in Texas are run by municipalities, so a regional housing authority is a rarity and a new concept to most Texans. THF also needed to overcome the prejudices that many residents had to the concept of affordable housing. Through substantial outreach in the community and to other local governments, as well as a track record of accomplishments, THF has been able to establish its reputation

The Texas Housing Foundation has financed over \$300 million to develop or acquire over 3,000 homes across Texas.

as an organization that truly benefits the community. Operating without a dedicated funding source was another challenge for THF when it first began, but it has since expanded its operations enough to cover its operating expenses. Finally, THF faces the ever-growing challenge of an increasing population that needs housing it can reasonably afford – the challenge that began the partnership between the counties but has remained THF’s biggest challenge.

To other counties wishing to replicate this kind of work, Mr. Mark Mayfield, President and CEO of the Texas Housing Foundation, recommended that county leaders act boldly and not fear doing something different. In Texas, as in many other counties around the nation, the status quo is changing, and standard procedures will not always continue to function as well as before. By thinking outside the box and partnering with neighbors, counties can develop new ways to expand housing affordability for residents who need it most.



Costa Esmeralda Apartments in McLennan County, Texas is a 112-unit LITHC family development built in 2011 and managed by THF.

Hennepin County, Minn.

2017 Population Level: 1.3 million

2016 Unemployment Rate: 3.4%

2016 Median Home Value: \$235.8k

2016 Median Gross Rent: \$982

2016 Median Household Income: \$68.0k

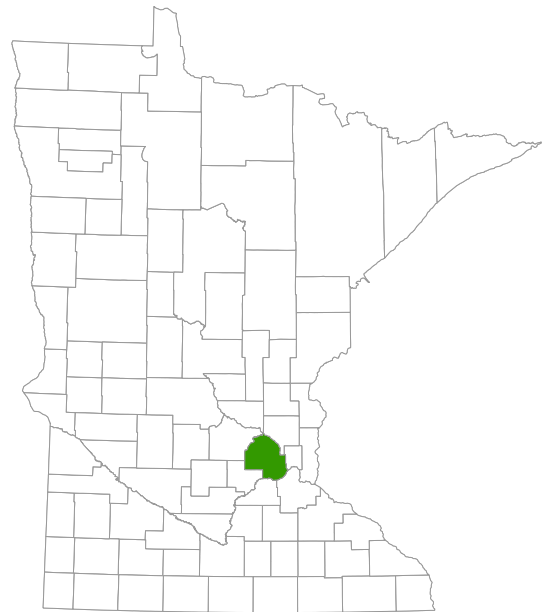
2016 Percent Mortgaged Housing Above Affordability Threshold: 25%

2016 Percent Rentals Above Affordability Threshold: 48%

Source: NACo County Explorer data, 2018

Interviewees:

- Margo Geffen, Manager, Housing Development and Finance, Hennepin County, Minn.
- Markus Klimenko, Area Manager, Hennepin County, Minn.



Context

Hennepin County is the most populous county in Minnesota, with 1.3 million residents in 2017.²⁸ Recognizing that the lack of affordable housing was disproportionately impacting its human services clients – particularly those with very low incomes – Hennepin County responded by forming partnerships with other agencies and local funders to develop innovative solutions.

For many counties, zoning and land use policies are the primary tools that counties can use to address affordable housing issues. Hennepin County, however, is one of only two counties in Minnesota without distinct zoning and land use authority by state statute.²⁹ Without this authority, the county’s primary tools for supporting affordable housing development are various grant and loan programs with other agencies and funders. Within the county, the close coordination between health and human services and housing development departments has also been crucial to the county’s affordable housing work.

Solution

In 1987, the county established the Hennepin County Housing and Redevelopment Authority (HCHRA) to serve the housing, economic development and rede-

“We try to make affordable housing the business of every county service area because stable housing is at the root of every method we use to measure of quality of life.”

– Mr. David Hough, County Administrator, Hennepin County, Minn.

velopment needs of its residents and municipalities. The HCHRA is a separate tax levying authority governed by the county’s Board of Commissioners, which has additional statutory powers to address affordable housing. For 2018, the HCHRA’s separate property tax levy comprises approximately three-quarters (76 percent) of the HCHRA’s \$11.2 million budget.³⁰ Through the HCHRA, Hennepin County has been able to tackle affordable housing issues through a variety of programs.

First, in 2000, the HCHRA created the Affordable Housing Incentive Fund (AHIF) to help fund affordable housing projects serving the lowest-income residents. Using funds from the HCHRA’s county-wide property tax levy, AHIF allocates approximately \$3 million dollars

Building Homes: County Funding for Affordable Housing

per year to affordable housing developments. AHIF has helped fund non-profit, public and private developments through a competitive request for proposals (RFP) process. Funding is typically provided in the form of a 30-year deferred loan with an interest rate between zero and three percent. This money typically acts as gap funding to help developers bridge the difference between market rate and affordable rent prices.

AHIF gives priority to projects serving residents who make less than 30 percent of the AMI (\$28,300 for a household of four, as of 2018)³¹ and to projects that designate units for priority occupancy by county human services clients (Human Service Units). Developers that include Human Service Units in their building agree to notify the county of vacancies and hold that unit for a specified period of time while Hennepin County staff seeks a county client tenant. This commitment is memorialized by a declaration that rides with the property. There are currently 191 Human Service units in developments throughout the county.

In 2003, the HCHRA created a second program that supports affordable housing: the Transit Oriented Development (TOD) program. This fund was created to support the development of affordable housing, market-rate housing and businesses near transit corridors.

The TOD program is also funded by the HCHRA's county-wide property tax levy and allocates approximately \$2.2 million dollars per year to these types of programs.

Finally, a third program Hennepin County supports is the Naturally Occurring Affordable Housing (NOAH) Impact Fund. In 2016, the HCHRA committed \$3 million as the first investor in the NOAH Impact Fund. The NOAH Impact Fund is a \$25 million metro-wide initiative administered by the Greater Minnesota Housing Fund to preserve existing affordable housing units within the seven-county metro area.

The goal of the NOAH Impact Fund is to compete with market rate investors, who are capitalizing on low vacancy and high demand by acquiring affordable units, making improvements, then raising rents. The displaced residents are disproportionately low-income residents with few alternative housing options. Many of these displaced residents are county clients, or become county clients after the displacement. Additional funders of the NOAH Impact Fund include the McKnight Foundation, the Minnesota Housing Finance Agency, Otto Bremer Trust and various local banking institutions.³²

Alongside the HCHRA's property tax levy, Hennepin County receives federal funds from HUD to support its



Hennepin County supported the development of 66 West to provide housing for youth experiencing homelessness in Edina using funding from HOME, AHIF and TOD.

affordable housing work. In 2018, the county received approximately \$2.9 million of CDBG funding, \$1.8 million from the HOME program and \$229,809 through Emergency Solutions Grants (ESG).

Outcomes and Challenges

Over the past 18 years, AHIF has invested \$63 million, leveraging approximately \$1.8 billion to create or rehabilitate over 7,700 affordable housing options for Hennepin County residents. The TOD program has also awarded more than \$29 million since it began in 2003.

Despite this investment and dedication, there is still simply not enough funding to meet the regional affordable housing demand. However, by coordinating with other

local government entities, foundations, underwriters and non-profits, the region has developed a comprehensive and coordinated strategy to address affordable housing needs. Hennepin County is unique in that it has a well-established network of community developers and philanthropic partners. As Mr. Markus Klimenko explained: in Hennepin County, partnership is key.

For other counties wishing to replicate the work of Hennepin County, Mr. Markus Klimenko and Ms. Margo Geffen recommend that they come to the table early with their partners. Even though Hennepin County is a large county, it does not try to tackle housing affordability by itself. Instead, the county connects with organizations and other governments around and learns how to best address top issues together.

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Key Takeaways

1. Commitment is Key

“ To ensure the success of an affordable housing initiative, county officials should remain fully committed to the effort and encourage residents to remain committed, too. Once developers understand that the county is serious about expanding housing affordability, they will be more willing to incorporate affordable units into their developments. In Nashville-Davidson County, the Office of Housing’s uncompromising approach and willingness to engage opponents to affordable housing has helped establish its programs.

2. Act Boldly

“ Be innovative and do not restrict your approach to affordable housing only to the status quo. Talk with your neighbors and think outside the box for how you can work together to achieve the results you want. The Texas Housing Foundation has succeeded thus far because county leaders acted boldly and created a regional housing authority to tackle housing affordability with their neighbors.

3. Bring Others to the Table

“ Within your own county or region, bring as many stakeholders as you can to the table to invest in affordable housing. Explain that housing affordability is an issue that affects or will affect each one of them, and that each partner – whether a government entity, private corporation, non-profit organization or philanthropic foundation – has a different set of tools to contribute. In Hennepin County, county leaders work with the state, the city, philanthropic partners, non-profits and many more to provide housing county residents can afford.

Acknowledgments

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For more information:

www.NACo.org/BuildingHomes

www.NACo.org/Lab

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About NACo

The National Association of Counties (NACo) unites America's 3,069 county governments. Founded in 1935, NACo brings county officials together to advocate with a collective voice on national policy, exchange ideas and build new leadership skills, pursue transformational county solutions, enrich the public's understanding of county government and exercise exemplary leadership in public service.

Counties have vast responsibilities when it comes to delivering our infrastructure. This report showcases how housing is a critical portion of the infrastructure portfolio. To learn more, visit www.NACo.org/CountiesBuild.

About the Counties Futures Lab

The NACo Counties Futures Lab brings together leading national experts to examine and forecast the trends, innovations and promises of county government with an eye toward positioning America's county leaders for success. Focusing primarily on pressing county governance and management issues — and grounded in analytics, data and knowledge sharing — the Lab delivers research studies, reports and other actionable intelligence to a variety of venues in collaboration with corporate, academic and philanthropic thought leaders to promote the county government of the future.

Endnotes

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