Enhance and Expand the Housing Trust Funds in the City and County of Sacramento

June 2017

SACRAMENTO HOUSING ALLIANCE

Table of Contents

Sacramento Housing Alliance Staff

Veronica Beaty – Policy Director, Primary Author

Darryl Rutherford – Executive Director Aileen Joy – Communication & Events Director

This report was produced with assistance from Bernadette Austin and Steve Coffeen.

We appreciate their time and insight.

Executive Summary

The following report is designed to provide an introduction to the topic of housing trust funds and provide a framework for enhancing and expanding the housing trust funds for the City and County of Sacramento. It explores housing trust fund programs around the country, describes the parameters of the existing Housing Trust Fund and affordable housing programs for the City and County, and delineates a number of potential funding sources that can supplement and leverage the existing financial resources available for the creation and preservation of affordable housing in the Sacramento region.

Affordable homes are the foundation for a healthy, equitable, and sustainable community. In the Sacramento region, average incomes simply cannot support average rents; this destabilizes families, communities, and the regional economy by creating problems ranging from workforce retention to growing homelessness. According to the May 2017 report released by Sacramento Housing Alliance and the California Housing Partnership, Sacramento County would have to create 62,072 more affordable rental homes to meet the needs of its lowest-income renters, who are disproportionately people of color. When the community produces an adequate supply of safe, accessible and affordable homes, residents experience improved physical and mental health; families are strengthened and have increased economic opportunities; and people can live in integrated neighborhoods near jobs and services.

There is a dearth of housing to meet the demand because funding for affordable housing has been slashed at the same time housing needs have grown. Since 2007, California has lost more than half its major sources of funding for affordable homes. Enhancing and expanding the existing trust fund programs will go far in closing the gap in financing affordable housing development and provide much-needed leverage for other sources of funds. It is critical to identify and maximize local funding resources to address the housing crisis, while also continuing to advocate for the state government to dedicate sufficient resources and for the federal government to fulfill its historic responsibilities in housing funding.

History

More than a quarter of a century ago, the governing bodies of the City and County of Sacramento acknowledged the importance of affordable housing to the continued economic development of the region. The City (in 1989) and the County (in 1990) each adopted housing trust fund ordinances, and since then the two have collected a combined total of nearly $75 million.

Funding

There are currently four housing trust funds that finance affordable housing in the City and County of Sacramento. Nonresidential impact fees fund the County's Very Low Income Housing Fund and the City's Housing Trust Fund. Residential "in lieu" fees fund the County's Fund for Affordability Fees and the City's Low Income Housing Fund.

While the existing sources are an important component of affordable housing funding, additional sources of revenue must be identified, given the region's growing housing needs and deficit of affordable homes. This report identifies a number of other possible funding sources used by jurisdictions throughout California and the nation. Ongoing funding sources could include tax revenue, ongoing General Fund revenue, and new fees on hospitality, entertainment, and real estate transactions. Intermittent funding sources could come from municipal bonds, the sale of publicly owned land, institutional investment, or other negotiations and agreements. Strong housing trust funds have proven to be one of the best tools available to address housing crises across the nation through the production and preservation of affordable homes. Sacramento's existing housing trust funds are the necessary financing mechanisms and only require the investment to match our housing need.

Introduction

Affordable Housing Promotes Communities That are Healthy, Equitable, and Sustainable

The Sacramento region is in a housing crisis. As the region's definitive voice in advocating for affordable places to live, the Sacramento Housing Alliance recognizes that affordable homes are the foundation for healthy communities. When average incomes are considered, the Sacramento region is less affordable than high-cost areas like the San Francisco Bay Area. Median rents in Sacramento County increased by 18% between 2000 and 2017, while the median income declined by 11% during the same period, significantly driving up the percentage of their income households must spend on rent. According to a 2017 report released by Sacramento Housing Alliance and California Housing Partnership, approximately a third of very low income households in Sacramento County pay more than half their income in rent, as do 77% of extremely low income households.[1] Each month Sacramento residents are making impossible choices between paying rent, putting food on the table, or buying needed medication.

Affordable homes contribute to public health and resilient families and communities. Affordable housing developments can provide a crucial platform for addressing significant public health concerns including mental illness, substance abuse, developmental disabilities, and homelessness. Providing low income households with a safe, affordable place to live can lower health care system costs (less trips to the emergency room) and allow families to reallocate money toward healthcare and other important necessities (food, transportation, etc.). Transitional and permanent supportive housing provides more than a roof over one's head; these homes feature integrated social services that can help a veteran find a job, provide a dually diagnosed individual access to on-site counseling, and offer free child care for a formerly homeless family.

Affordable homes are a critical component of healthy and equitable neighborhoods. A growing body of research shows that access to quality medical care determines as little as 10% of health outcomes, while up to 80% of outcomes are affected by other social determinants of health.[2] These determinants include socioeconomic status, access to healthy foods, physical activity, mental health, and access to a quality, affordable home. Through the work of the Robert Wood Johnson Foundation, the Kresge Foundation, the Federal Reserve Bank of San Francisco, the California Endowment, and many others, it is becoming apparent that a person's zip code is more important than a person's genetic code in determining health and life expectancy. Geographic disparity in life expectancy among counties across the nation can vary by as much

[1] California Housing Partnership. (2017, May). *Sacramento County Renters in Crisis: A Call for Action.* Retrieved from https://chpc.net/wp-content/uploads/2017/05/Sacramento-2017.pdf

[2] Robert Wood Johnson Foundation. (2014, August). The relative contribution of multiple determinants to health outcomes. *Health Policy Brief*. Retrieved from http://healthaffairs.org/healthpolicybriefs/brief_pdfs/healthpolicybrief_123.pdf

as 20 years.[3] In the Sacramento region, residents of Rocklin, Lincoln, and Loomis in Placer County outlive people who grow up in Antelope and Rio Linda in Sacramento County by 7.5 years on average.[4] Unfortunately, in the Sacramento region, community health is imperiled by a serious deficit of safe, affordable, and accessible homes.

Just as they are key to individual health, affordable homes are key to a sustainable planet. California leads the nation in policies that promote environmental responsibility, and housing policies are no exception. Programs that fund affordable housing developments are administered predominantly through the State Treasurer's Office and the California Department of Housing and Community Development; the guidelines that govern these programs include the country's most advanced green building standards, requiring a minimum level of energy efficiency and give priority to homes located near services, amenities, and transit. In meeting these requirements, affordable housing developments increase active transportation and promote air quality. As a result, there are extensive co-benefits of increasing affordable homes for both the people who live in those homes and the neighborhoods where the homes are built. The state's most recent affordable housing program, the Affordable Housing and Sustainable Communities Program is an explicit acknowledgement of the important role affordable homes and affordable transit-oriented development can play in reducing greenhouse gas emissions.

Housing Affordability Is Threatened by a Lack of Funding

Safe, decent, and affordable housing continues to be out of reach for too many families and individuals. Since 2008, Sacramento County has lost 66% of its state and federal funding for affordable homes, more than $44 million annually[5], even as the need for affordable homes has grown. Federal programs that fund affordable housing continue to be slashed and threatened with elimination. State housing programs funded by Propositions 1C and 46 are exhausted. The result has been the elimination of tens of millions of dollars in investment to provide homes affordable to low- and moderate-income households in the Sacramento region.

Prior to the dissolution of redevelopment across California in 2012, the City and County of Sacramento had significantly more resources available to create and preserve affordable housing. In the 2010–2011 fiscal year, the Sacramento Housing and Redevelopment Agency (SHRA) reported approximately $48.9 million in tax increment financing available in the City, of

---

[3] Kaplan, K. (2017, May 8). To live a long life in America, it helps to be born in the right county. *Los Angeles Times.* Retrieved from http://www.latimes.com/science/sciencenow/la-sci-sn-life-expectancy-varies-20170508-htmlstory.html

[4] Burd-Sharps, S. & Lewis, K. (2014, December 9). *A Portrait of California 2014-2015: California Human Development Report.* Retrieved from http://ssrc-static.s3.amazonaws.com/wp-content/uploads/2014/12/A-Portrait-of-California_vF.pdf

[5] California Housing Partnership. (2017, May). *Sacramento County Renters in Crisis: A Call for Action.* Retrieved from https://chpc.net/wp-content/uploads/2017/05/Sacramento-2017.pdf

which $9.8 million was set aside exclusively for affordable housing developments.[6] In that same year, approximately $12.5 million in tax increment financing was available in the County, of which $2.5 million was set aside exclusively for affordable housing.[7] Prior to the dissolution of redevelopment, at least $12.3 million was available annually in the City and County for affordable housing development. These funding levels already represented a significant *decrease* from previous tax increment financing available for affordable housing development.

Since 2008, Sacramento County has lost more than $44.4 million in state and federal funding for affordable homes, more than half of the funding once available.[8] Another consequence of the decline in funding is that the City and County of Sacramento are less competitive in applications for existing and new funding resources. For example, the new No Place like Home Program, requires a significant funding match for applications to be competitive. Without adequate local funding resources, it will be difficult for local applicants to compete for these critical new funds. In light of these dwindling financial resources, the Sacramento Housing Alliance is committed to working with partners and stakeholders to identify creative and sustainable funding sources, which will ensure affordable homes, are created and preserved throughout the region. While funding resources have disappeared, the demand for affordable homes has increased. New financing mechanisms must be developed.

Where We Are Now and Where Are We Going?

The housing elements of the City and County identify significant existing housing needs and burdens. In 2014, Sacramento County's lowest-income renters spent 62% of their income on rent. In the City of Sacramento, half of all households are lower income — at or below 60% of Sacramento County's area median income — including 57% of seniors and 60% of large families (large families are defined as consisting of 5 or more related people). More than one-half of Sacramento households rent; only 49% own their homes (compared to 58% countywide and 56% statewide). Sacramento County needs 62,072 more affordable rental homes to meet the needs of its lowest-income households.[9]

The Regional Housing Need Plan adopted by the Sacramento Area Council of Governments projects that between 2013 and 2021 Sacramento County must add 13,844 new homes to meet projected population growth, including 5,357 homes affordable to lower income households. The City of Sacramento must accommodate an additional 24,101 housing units, including 8,411 affordable to lower income households. These numbers only describe the need for homes to

---

[6] Cavier, Don. (2011). Consolidated annual report of Community Redevelopment Agencies and housing activity: Report for the California State Department of Housing and Community Development. *Report to Council and Redevelopment Agency.*

[7] Cavier, Don. (2011). "Consolidated annual report of Community Redevelopment Agencies and housing activity: Report for the California State Department of Housing and Community Development." *Report to Board of Supervisors and Redevelopment Agency.*

[8] California Housing Partnership. (2017, May). *Sacramento County Renters in Crisis: A Call for Action.* Retrieved from https://chpc.net/wp-content/uploads/2017/05/Sacramento-2017.pdf

[9] California Housing Partnership. (2017, May). *Sacramento County Renters in Crisis: A Call for Action.* Retrieved from https://chpc.net/wp-content/uploads/2017/05/Sacramento-2017.pdf

accommodate projected population growth. The extent of the affordable housing crisis is revealed when projected demand is added to the existing needs of Sacramentans, who are already paying too much of their incomes toward housing and are often forced to settle for substandard housing and overcrowded homes.

A major component of the City and County of Sacramento's approach to addressing these needs is the existing housing trust funds, which raise local financing for the construction of affordable homes. All funds are administered by the Sacramento Housing and Redevelopment Agency. This paper will refer to "housing trust funds" in the generic sense of distinct funds established by city, county or state governments that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing, including all four of the existing funds in the City and County of Sacramento. These programs are described at length in the following sections.

What Can Be Done?

The remainder of this paper provides a framework for evaluating and raising new revenues to finance affordable homes in the City and County of Sacramento. It describes features of the existing housing trust fund and affordable housing fund programs for the City and County, explores housing trust fund programs around the country, and delineates a number of potential sources of funding that can supplement and leverage the existing financial resources available for the creation and preservation of affordable housing in the Sacramento region.

Existing Housing Trust Fund Programs

Existing Housing Trust Fund Programs

	City of Sacramento[10]		County of Sacramento[11]	
Fund Name	Low Income Housing Fund created by the Mixed Income Housing Ordinance	Housing Trust Fund	Housing Trust Fund/ Very Low Income Housing Fund	Fund for Affordability Fees created by the Affordable Housing Ordinance
Adopted	2015	1989	1990	2014
Fund Source	Impact fee on residential development	Impact fee on nonresidential development	Impact fee on commercial development	Impact fee on residential development
Fund Purpose	Develop affordable housing units with the goal of increasing the supply available for lower-income workers earning up to 80% of area median income.	Develop affordable housing units within 7 miles of the employment-generating use paying the fee to benefit households earning up to 80% of area median income.	Develop affordable housing units to benefit very low income households earning up to 50% of area median income.	Develop affordable housing units to benefit low (80% area median income), very low (50% of area median income) and extremely low income (30% area median income) households. At least 10% of revenue to be used to produce extremely low income units. At least 50% of revenue to be used to produce affordable housing in large projects (> 750 units).
Code Citation	Chapter 17.712	Chapter 18.56	Chapter 16.89	Chapter 22.35
2016 Ending Balance	$491,933	$6,769,374	$3,890,064	$3,878,362

[10] Dozier, LaShelle. (2017, May). Housing Trust Fund Ordinance and Mixed Income Housing Ordinance annual report. *Report to City Council of Sacramento*.
[11] Dozier, LaShelle. (2017, May). Housing Trust Fund and Affordable Housing Ordinance annual report. *Report to Board of the County of Sacramento*.

The Sacramento City Council and the Sacramento County Board of Supervisors adopted Housing Trust Fund Ordinances in 1989 and 1990, respectively. Both programs were adopted to assess development impact fees on commercial developments to create housing affordable to the new very low- and low income workers such development attracts. Comprehensive nexus studies demonstrated the quantitative relationship between construction of commercial projects (e.g. offices, business parks, hotels, warehouses, and shopping centers) and the resulting need for new workforce housing in our already tight affordable housing market. Housing trust fund fees are assessed and collected by each jurisdiction respectively and the distribution and administration of this funding is performed by the Sacramento Housing and Redevelopment Agency (SHRA). SHRA is a Joint Powers Authority created by the City and County to represent both jurisdictions on matters of affordable housing and community redevelopment.

Revenue Sources, Eligible Uses and Desired Beneficiaries of Existing Trust Funds

All City and County housing trust funds are to be used to increase and improve the supply of affordable homes through construction or substantial rehabilitation. Both the City and the County collect impact fees on residential and non-residential development, creating four housing trust funds.

The City of Sacramento's Housing Trust Fund receives revenue from a fee on nonresidential development, as described above. The City's Housing Trust Fund Ordinance was initially adopted in 1989 to provide local financing for affordable housing near employment centers, based on a nexus between nonresidential development and the increased demand for affordable homes this development necessitated — impacting an already limited availability of affordable housing. To this end, a housing trust fund fee is assessed on nonresidential development.

More recently, the City's new Mixed Income Housing Ordinance established a Housing Impact Fee on residential development projects. This "in-lieu" fee gave developers the option of paying a fee for each market-rate home built (currently $2.67 per square foot for Fiscal Year 2016/2017) into the Low Income Housing Fund, instead of constructing affordable homes on-site. City housing impact fees are placed in the City's Low Income Housing Fund, and carry the same restrictions on use of funds and project locations as the Housing Trust Fund. Housing Trust Fund and Low Income Housing Fund revenues are to be used for the development of "new or substantially rehabilitated affordable housing for low income and very low income households whose members are in the labor force, with priority given to very low income households."[12]

The County's Housing Trust Fund Ordinance was adopted in 1990 and is similar in many ways to the City's. It imposes impact fees on nonresidential developments based on an economic nexus analysis as described above. The fee-generated revenue is deposited into the Very Low Income

[12] Sacramento, California Municipal Code. (2017). art. IV, § 18.56.430, C.1.

Housing Trust Fund and used to produce and preserve affordable housing units for very low income households.

In 2014, the Sacramento County Board of Supervisors modified the Inclusionary Housing Ordinance to allow developers to pay an “Affordability Fee” in lieu of constructing affordable housing. As of March 1, 2017, the County fee is $2.69 per habitable square foot of each market rate unit. These Affordability Fees are collected in a separate fund called the Fund for Affordability, which carries deeper targeting requirements and has more restricted uses than the Very Low Income Housing Trust Fund to encourage inclusive development within the County: at least half of fee revenue must be used to produce affordable housing in large development projects, and at least 10% of fee revenue must be used to produce extremely low income units. In 2013 and 2014, the Sacramento Housing Alliance advocated for these restrictions to preserve some of the best parts of the Inclusionary Housing Ordinance that was being rewritten.

The Sacramento Housing Alliance (SHA) recognizes that in-lieu fees are an important source of revenue for housing trust funds and advocated for much higher fees. SHA, in partnership with our members who develop affordable homes, estimated a fee in the range of $9 – $13 per square foot was necessary to generate sufficient revenue to produce affordable homes at a rate comparable to the 15% inclusionary housing requirement in the prior ordinance. Both the City and the County substantially weakened their affordable housing ordinances by removing the mandate to build affordable homes, and the in lieu fees do not compensate for that loss because they generate insufficient revenue to get the necessary homes built. Relying on impact fees as the only source of funding for our housing trust funds will mean continuing to fall short in addressing the needs of Sacramentans.

Administration of Existing Trust Funds

SHRA administers all existing affordable housing funding for the City and County of Sacramento including the existing Housing Trust Fund and Affordable Housing Fund programs for the City. SHRA also administers both the Housing Trust Fund and the Fund for Affordability Fees on behalf of the County of Sacramento (see chart above). The City Council or Board of Supervisors must approve all of SHRA’s administrative procedures. The criteria for location and awarding of funds are outlined in SHRA’s Multifamily Lending and Mortgage Revenue Bond Policies.

Exploring New Housing Trust Fund Options

The existing Housing Trust Fund programs in the City and County of Sacramento and around the region are consistent with several programs around the country funded by fees assessed by local jurisdictions. As described in the introduction of this report, the Sacramento region is facing an ever-increasing demand for affordable homes with significantly dwindling resources. It is imperative to identify new sources of funds to address the imbalance between the supply and demand for affordable housing. In expanding the existing housing trust fund programs, it is important to consider the effective administration of the programs. The following sections describe how other communities around the country have addressed the development and implementation of housing trust fund programs.

Core Elements of a New Housing Trust Fund

When creating new funding mechanisms for a housing trust fund, it is important to define the parameters of the program in advance of drawing broader public support. First and foremost is identification of desired beneficiaries and eligible uses of the funding source, addressing the following questions:

- Should the program seek to create new housing units exclusively or also fund the rehabilitation or preservation of existing affordable housing units?
- Should the program prioritize certain household types, such as individuals experiencing homelessness or seniors?
- Should eligible applicants only be affordable housing developers, nonprofit organizations, and/or locally based entities?
- Should the trust fund program be used exclusively for capital costs, or could housing vouchers or other operation costs be covered?

The administration of the trust fund should be considered as well, including the distribution of funds.

- Should it be structured to provide loans and/or grants?
- Should funding be awarded on a competitive basis?
- Is the program consistent with likely sources of leverage funding for maximum efficacy?
- How can the program complement and remain consistent with the guidelines of the California Tax Credit Allocation Committee (TCAC), California Debt Limit Allocation Committee (CDLAC), California Department of Housing and Community Development (HCD), and Sacramento Housing and Redevelopment Agency (SHRA)?
- Should a selection or loan and grant review committee be established or the existing commission strengthened?

The answers to these questions will significantly affect how easy it is to garner support, ensure program effectiveness, and justify expansion of the program. For the funding sources that require a nexus study under the Mitigation Fee Act, the answer to these question, particularly population to be served, will be driven by the scope and findings of nexus study.

Examples from Around the Country

A recent survey found that housing trust fund programs operate in more than 770 communities around the country, including dozens in this state.[13] Appendix A contains a summary of the specific trust fund programs funding affordable housing development in metropolitan areas around the country. Across the nation, city housing trust funds generated over $385 million in revenue, and county housing trust funds generated over $790 million in Fiscal Year 2015 alone.[14]

In California, housing trust fund programs are found in large communities like the City and County of San Francisco, smaller communities like Menlo Park, and several communities similar in size to Sacramento. These programs are generally funded through developer impact fees or residential in-lieu fees, but 40% of the programs draw from more than one source of funding. The following section describes the diverse funding sources that have been used to finance housing trust fund programs around the country. These can serve as a model for expanding the housing trust funds in the Sacramento region.

---

[13] Brooks, M. & Anderson, M. (2017). State and local housing trust funds. *National Low Income Housing Coalition Advocates' Guide 2017*. Retrieved from http://nlihc.org/sites/default/files/2017_Advocates-Guide.pdf

[14] Center for Community Change. (2016). *Opening Doors to Homes for All: The 2016 Housing Trust Fund Survey Report*. Retrieved from http://housingtrustfundproject.org/wp-content/uploads/2016/10/HTF_Survey-Report-2016-final.pdf

Sources of Revenue Tools for Housing Trust Funds

This section addresses the most critical — and controversial — aspect of any housing trust fund program: the sources of funding. As discussed earlier, the City and County of Sacramento have existing housing trust funds funded through development impact and in-lieu fees. All of these funds are explicitly allowed to receive monies from other sources as well. To meet Sacramento's need for affordable homes, the housing trust funds must be expanded. In proposing a financially sustainable expansion of the housing trust funds, it is critical to consider sources that are both ongoing and diverse. The following section describes potential additional funding sources worthy of consideration, including existing, ongoing revenue streams that could be dedicated to affordable housing and/or enhanced; new financing mechanisms; and novel sources of one-time funds.[15]

Existing Revenue Sources

"Boomerang" Funds

Although the statewide dissolution of redevelopment has removed tax increment financing as a funding source for affordable housing and other activities, residual revenue from the Redevelopment Property Tax Trust Funds are still available to local jurisdictions. These residual redevelopment revenues, commonly known as "boomerang" funds, had previously been dedicated to redevelopment agencies, but as agencies wind down activities, the funds are returning to the taxing entities. For cities and counties, they could be dedicated to affordable housing instead of going directly to the general fund. Many communities throughout California have dedicated a portion of these "boomerang" funds for affordable housing. This dedication sets a precedent for a continued commitment of boomerang funds through municipal ordinances and sets the stage for other jurisdictions to undertake a comparable dedication of funding to affordable housing development.

Property Tax

Property taxes are imposed by a county and divided up among the taxing entities, including the county, cities, special districts, and school districts. Under Proposition 13, the maximum tax rate allowed on real property for general purposes is 1% of the property's assessed value. If the Sacramento community wanted to increase the 1% maximum rate to fund affordable housing, it would require a two-thirds vote.

Transient Occupancy Tax

A hotel, lodging, or transient occupancy tax generates significant income for local jurisdictions and can be partially dedicated to affordable housing. Hotels and motels create many low-paying jobs in areas that often lack affordable housing for these workers. The City of Sacramento and County of Sacramento currently assess a 12% Transient Occupancy Tax (TOT), which is collected at the time of stay and remitted on a monthly basis. The Convention Center

---

[15] SHA has commissioned research from BAE on the potential revenue generated by a select number of the sources discussed below. That research will be available on our website at SacHousingAlliance.org.

Fund receives 10% of the tax and the remaining 2% of the tax is transferred into the City's General Fund. One option for leveraging funds from this source would be to increase the TOT and use the additional revenue to fund or expand the Housing Trust Fund.

The City of Sacramento began to require all short-term rentals, including Airbnbs, to pay the Transient Occupancy Tax in January 2016.[16] Airbnbs are also required to pay the business operation tax mentioned below. This new requirement will result in an increase in TOT revenue, which could be entirely dedicated to affordable housing, since short-term rentals reduce the availability of homes available for long-term rental and increase the costs of long-term rents overall. TOT revenue could also be reasonably expected to increase if the Sacramento Convention Center expands.

Business Registration Fee

An annual Business Registration Fee can be charged for the permission to do business within a particular jurisdiction. The fee can range according to the size and type of business. While all organizations must register, organizations with an income-tax exemption do not pay the fee. Business registration fees could be assessed one time only or could be required annually. The County of Sacramento currently assesses business license application and renewal fees. In the City of Sacramento, businesses must have a Business Operation Tax certificate, which is the equivalent of a business license in other jurisdictions.

Business Operations Tax

In some jurisdictions, the local government assesses a tax based on factors such as anticipated gross receipts; gross rent; type of business; and number and/or classification of employees. In cities such as Berkeley and East Palo Alto, a portion of business license tax paid by owners of residential rental property is dedicated to funding affordable housing and homelessness prevention. The City of Sacramento assesses a Business Operation Tax, and assessment varies by business type.

Real Estate Transfer Tax (RETT)

Real estate transfer taxes (RETTs) – also known as “real estate conveyance taxes,” “deed recordation taxes,” and "real property transfer taxes" – are a type of sales tax based on the value of a real estate transaction. RETTs can be assessed at the state, county, and/or municipal level; they are most often used as general revenue but can also be dedicated to specific uses such as affordable housing development. RETTs can be a powerful means of recapturing increases in land value resulting from public action, such as rezoning, especially when used to create and preserve affordable housing in disadvantaged neighborhoods suddenly flooded by investment. Because RETTs are based on the value of a real estate transaction and paid every time the property is sold, they raise additional revenue as public and private investment increases land values. Equitable development advocates embrace RETTs because they mitigate the very activities that can lead to displacement — high-end real estate sales with rapid turnover.

---

[16] Garrison, Ellen. (2016, January 19). Sacramento approves restrictions on short-term rentals such as Airbnb. *Sacramento Bee.* Retrieved from http://www.sacbee.com/news/business/article55560300.html

RETTs range widely from 0.01 to 0.4% and often include specific exemptions for low income and first-time homebuyers. To calculate the real estate transfer tax in California, counties are authorized to impose $1.10 per $1,000 of value and general law cities are authorized to impose $0.55 per $1,000 of value. Charter cities – such as Sacramento, Oakland, and San Francisco — can impose RETTs above the statutory limit without specific state legislation, and there is no cap on what a charter city can charge. Real estate transfer tax increases are not restricted under Proposition 13, as they are not considered property taxes.

If a measure were proposed increasing the RETT for general revenue, it would only need a majority vote to pass, and would require a companion measure to express the intent of the governing body to spend the revenue on affordable housing. The City would have the authority to use money at their discretion for other purposes. Alternatively, a RETT measure could be written to permanently dedicate revenue to affordable housing but would require a two-thirds vote. The County could not increase their RETT without state enabling legislation.

Entertainment Ticket Surcharge

Ticket surcharges are a fee on admission tickets to events. These fees are collected by the facility operators and remitted to the City periodically. In Sacramento, the Wells Fargo Pavilion has a $7 per ticket facility fee, and the Community Center Theater has a $3 per ticket facility fee. The Entertainment and Sports Center has a $1 per ticket surcharge used to fund the ESC Capital Repairs Reserve Fund ("Capital Fund Ticket Fee"). No such fees have been determined for the proposed Major League Soccer Stadium to date. A small increase in any of these fees could be dedicated to the Housing Trust Fund.

Ongoing General Fund Revenue

A significant number of jurisdictions across the country have dedicated ongoing general fund revenue to affordable housing development. The most prominent examples in California are in San Francisco and Los Angeles. The City and County of Sacramento could opt to do the same, as several priority programs are funded through dedicated General Fund revenue.

Proceeds from the Sale of Publicly Owned Land

A portion of unrestricted proceeds from the sale of publicly owned land could be allocated to the Housing Trust Fund, as implemented in jurisdictions such as Ann Arbor, Michigan and recommended by the Bay Area Prosperity Plan.[17] In addition to City- or County-owned lands, Sacramento could work with local school districts or transit agencies as partners in the disposition of land. One model is for the Housing Trust Fund Program to receive a percentage of the proceeds from the sale of real estate owned by a local school district as a voluntary contribution from the district. Additionally, City or County staff could provide a broad range of services on these transactions, from technical assistance to seller's representation on a contract basis. While the majority of the proceeds from the sale of property would be used to fund the HTF Program, a portion of the proceeds could be used to compensate the local jurisdiction for

[17] Association of Bay Area Governments. (2016, February). *Housing Affordability and Neighborhood Stability Toolkit.* Retrieved from http://mtc.ca.gov/sites/default/files/ABAG_Housing_Toolkit.pdf

real estate expertise that the school district may lack in-house, such as marketing, brokerage, and legal representation in financial transactions.

Increased Fees on Nonresidential and Residential Development

As discussed in preceding sections, fees are levied on both nonresidential and residential development for the existing housing trust funds. The Sacramento region was disproportionately impacted by the recent economic downturn. In response, local jurisdictions succumbed to pressures to amend and reduce affordable housing-related requirements. As the recovery continues, these fees could be revisited and revised to more accurately reflect the nexus between development and the need for affordable homes. The Sacramento Housing Alliance has long been at the forefront of advocacy efforts around these ordinances.

New Funding Sources

Document Recording Fee

Local jurisdictions could also adopt a document recording fee, assessed for the administration of recording property deeds and mortgages in the appropriate jurisdictions. A surcharge can be added to the administrative fee to generate income for a jurisdiction's general fund or specific local priorities. In 2015, the Building Homes and Jobs Act was introduced in the state legislature to assess a $75 document recording fee on real estate transactions to finance a permanent funding source for affordable housing. Although the bill failed to pass, several other jurisdictions and states have Document Recording Fee programs that provide an ongoing revenue stream for affordable homes.

A countywide document recording fee would require state-enabling legislation. If dedicated for affordable housing, it would be considered a special tax and require two-thirds voter approval. The City of Sacramento does not collect document recording fees.

General Obligation Bonds

General obligation (GO) bonds are a type of municipal bond backed by the taxation power of the jurisdiction rather than the revenue of a specific project. In order to place them on the ballot, proposed GO bond measures are adopted by resolution by designated elected officials — city councils for cities and boards of supervisors for counties — and must receive a two-thirds majority vote to be approved. Jurisdictions across the nation have approved GO bonds as a means of making large investments in affordable housing. In November 2016, Alameda County voters approved $580 million Affordable Housing GO bond (Measure A1), Santa Clara County voters approved a $950 Homelessness and Housing GO Bond (Measure A) and Oakland voters approved an infrastructure GO bond that included $100 million for housing (Measure KK). Neither Sacramento City nor County currently has outstanding general obligation bonds.

"Tourist Tax"/"Luxury Tax"

The development of Downtown Sacramento, including the Railyards, the Entertainment and Sports Center, and the Major League Soccer Stadium, demonstrates the potential for significant growth in the entertainment and hospitality industries. Other jurisdictions tap into a broad range of "tourist taxes" levied on aspects of the hospitality industry beyond the Transient Occupancy Tax and ticket surcharges, with a nexus drawn between the low income workers employed in this industry and a need for affordable homes. These “tourist taxes” include fees on rental cars; small additional taxes on restaurant bills; fees or voluntary contributions from casinos and other gaming enterprises; and, increasingly, additional fees on ride-hailing businesses such as Uber and Lyft. These taxes can be tailored to affect only luxury spending, for example, by limiting a restaurant tax to only those establishments that serve liquor and gross a certain level of sales.

Sales Tax

California has a base sales tax rate of 7.5% statewide, approximately 1% of which is returned to the city or county in which the purchase occurred. Most jurisdictions in California have added district taxes in addition to the base rate, ranging from 0.10% to 1%. Local sales taxes are used to raise revenues for local services or capital projects, including affordable housing. In November 2016, San Mateo County voters approved the extension of a half-cent sales tax which funds a variety of services and programs, including a multimillion dollar-commitment to affordable homes (Measure K). The sales tax rate throughout the County of Sacramento, including incorporated cities, is at least 7.75%, and the City of Sacramento’s sales tax rate is 8.25%.[18]

Proposition 47 Savings

Sacramento County stands to save an estimated $200 million as a result of the voter-approved Safe Neighborhood and Schools Act (Prop. 47). The Sacramento Building Healthy Communities initiative is currently conducting a campaign to identify the potential savings from the reduction in the jail population and to reallocate these savings away from jail operation and into community interventions. Housing and homelessness have been identified as a reinvestment priority by the campaign, given the current housing crisis in Sacramento, the role of housing access as a barrier to re-entry; and the degree to which stable housing can prevent recidivism.

Demolition Tax

The demolition of existing dwellings reduces the diversity of the housing stock and decreases the availability of affordable housing options. Subsequent redevelopment often contributes to increases in housing prices that make it more difficult to provide affordable housing. Accordingly, some communities have imposed a tax on teardowns to be levied to provide an appropriate source of revenue for affordable housing. In Illinois, for example, the Chicago suburb of Highland Park imposes an Affordable Housing Demolition Tax on all residential demolitions. The tax is $10,000 per building or $3,000 per unit, whichever is higher.[19] The tax has been in place since 2002, and had generated more than $3.1 million as of 2013.[20]

---

[18] State of California Board of Equalization. (2017, April). *California Sales and Use Tax Rates by County and City.* Retrieved from https://www.boe.ca.gov/pdf/boe95.pdf

[19] City of Highland Park Community Development Department. (2006, June). *City of Highland Park Affordable Housing Demolition Tax.* Retrieved from https://www.cityhpil.com/DocumentCenter/Home/View/411

[20] Huston, J. P. (2013, March 20). Demolition tax likely to remain. *Chicago Tribune*. Retrieved from http://articles.chicagotribune.com/2013-03-20/news/ct-tl-lk-0321-hp-demolition-tax-20130321_1_demolition-tax-north-shore-barrington-association-tax-places

Community Benefits and Institutional Investment

There are several potential opportunities for institutions to make significant one-time voluntary contributions to a housing trust fund. The expansion of health centers and universities presents an excellent opportunity for Community Benefit Agreements that include payments to a Trust Fund, as support services staff, and maintenance staff would qualify for affordable housing. As an example, the Sacramento Housing Alliance could engage Kaiser Permanente and the University of California as they develop plans to build new campuses at the Sacramento Railyards.

Other Funding Sources

Other potential funding sources include municipal bonds financed based on revenue streams identified above, repayments from other loan programs, proceeds from the expiration of tax abatement programs, and interest earnings from funds held. For example, the passage of AB 2031 Affordable Housing Beneficiary Districts allows Sacramento's development successor agency to bond against "boomerang" funds provided the funding is used for affordable housing.

Conclusion

Sacramento is in a housing and homelessness crisis. Rapidly rising rents are outpacing wages; unhealthy housing conditions are proliferating; and safe, decent, and affordable housing is becoming harder and harder to find. A lack of housing opportunity negatively impacts all Sacramentans, particularly low-wage workers, older adults, people with disabilities, families with children, and communities of color. The dearth of affordable places to call home threatens the region's ability to put bold new homelessness solutions into place. Unless more affordable housing is built, subsidized, and preserved, mounting individual, family, public, and social costs and consequences are inevitable.

Robust housing trust funds are a proven solution to housing crises; they are one of the best tools available to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent, affordable homes. There are nearly 700 housing trust funds across the nation in 47 states. The federal government created and launched a National Housing Trust Fund in early 2016. The strength of these trust funds lies in their inherent adaptability to local needs. Across the nation, families are spending too much of their paychecks on the roof over their heads. Communities are struggling to ensure they have the range of housing options necessary to retain service workers, nurture families, and support seniors. As federal and state funding for affordable homes disappears, housing trust fund programs can go far in filling funding gaps and leveraging competitive funding opportunities if funded sufficiently.

Sacramento has already demonstrated leadership by putting housing trust fund programs into place and should demonstrate renewed leadership by increasing the housing trust funds' revenue sources. In May 2016, the City of Denver, in its study on how to mitigate involuntary displacement and the negative effects of gentrification, cited Sacramento as having a promising strategy for affordable housing production and financing. The existing Housing Trust Fund Program is funded exclusively through impact fees on commercial development and the in-lieu fees set forth in Mixed Income Housing Ordinances. While critical funding sources, these fees have proven inadequate. Given the scope and depth of Sacramento's need for affordable homes, it is necessary to identify new and diverse funding sources for an expanded housing trust fund program and to diversify the sources of funds to make Sacramento's funding programs as robust and comprehensive as possible.

Sacramento has the needed housing financing mechanisms and only requires the investment to match. This report outlines a number of diverse sources that could pay into the existing trust funds or be used to establish new trust fund programs. There is no single "silver bullet" fee or tax that can make up the shortfall in public investment affecting Sacramento's highest-need residents. With steadfast commitment to principles and innovative policymaking, however, Sacramento's solutions can begin to mirror the scale of the challenge.

The Sacramento Housing Alliance is undertaking an effort to expand the dedicated sources of revenue for Sacramento's housing trust funds. SHA believes all Sacramentans deserve an affordable, safe, and healthy place to call home, and trust fund programs are one of the best tools for making those homes happen. SHA looks forward to bringing together leaders from elected offices, the business and affordable housing development community, advocates for affordable homes and ending homelessness, and civic and neighborhood leaders to address the region's housing challenges. Together we can ensure a robust and ongoing investment in homes that allow Sacramento residents to live where they work in safe and accessible homes that meets their needs. Bold and ample public investment in safe, decent, and affordable homes can help realize this vision for a healthy, sustainable, and just Sacramento.

Appendix A

City and County Housing Trust Fund Revenue Sources by State[21][22]

Alaska

- Juneau: General Fund; State Capital Budget

Arizona

- Pima County: Roof top fee
- Tucson: MF rental conversion fee; Unexpended funds from Utility Services LI Assistance Program

California

- Alameda County: Developer impact fees; Boomerang redevelopment funds
- Anaheim: Transient occupancy tax
- Berkeley: Residential impact fees; Developer impact fees
- Campbell: Inclusionary in-lieu fees
- Citrus Heights: Developer impact fees; Inclusionary in-lieu fees
- Cupertino: Developer impact fees
- Elk Grove: Developer impact fees
- Emeryville: Developer impact fees; Inclusionary in-lieu fees
- Fremont: Developer impact fees
- Livermore: Inclusionary in-lieu fees; Program income
- Long Beach: Transient occupancy tax
- Los Angeles: Tax increment financing; General Fund (DWP); Federal funds
- Los Angeles County: Boomerang redevelopment funds
- Mammoth Lakes: Transient occupancy tax; State and Federal funds
- Marin County: Developer impact fees
- Menlo Park: Developer impact fees; Loan repayments
- Napa County: Developer impact fees; County & City; Other
- Oakland: Developer impact fees; Tax Increment boomerang funds; Housing impact fees; Transient Occupancy Tax on short-term rentals
- Oxnard: Developer impact fees
- Palo Alto: Developer impact fees
- Pasadena: Developer impact fees

[21] Center for Community Change: Housing Trust Fund Project. (2017, January). *City Housing Trust Fund Revenues 2016*. Retrieved from https://housingtrustfundproject.org/wp-content/uploads/2017/01/City-htfund-revenue-sources-2016.pdf

[22] Center for Community Change: Housing Trust Fund Project. (2017, January). *County Housing Trust Fund Revenues 2016*. Retrieved from https://housingtrustfundproject.org/wp-content/uploads/2017/01/County-htfund-revenue-sources-2016.pdf

- Petaluma: Developer impact fees; Inclusionary in-lieu fees; Tax increment financing
- San Diego: Developer impact fees
- San Francisco City and County: Tax increment boomerang funds; Business License fees; Transient occupancy tax; Bonds; Developer impact fees; Inclusionary in-lieu fees
- San Jose: Increased tax increment funds; Inclusionary in-lieu fees; Housing impact fee
- San Luis Obispo County: Public/private investments
- San Mateo County: Public/private investments; Capital
- Santa Barbara County: Public/private investments
- Santa Clara County: Public/private investments; Interest income
- Santa Cruz: Inclusionary in-lieu fees
- Santa Monica: Developer impact fees; Inclusionary in-lieu fees
- Santa Rosa: Tax increment financing; Inclusionary in-lieu fees; Reserve; Bond financing; General Fund (real estate transfer tax growth); Contributions
- Sonoma County: Developer impact fees
- Ventura County: County funds and other
- West Hollywood: Developer impact fees; Program income

Colorado

- Aspen/Pitkin County: Real estate transfer tax; Sales tax
- Boulder: Property tax; Housing excise tax; Commercial linkage impact fee
- Denver: Development impact fees; Property tax
- Longmont: Inclusionary in-lieu fees; General Fund
- Summit County: Sales tax
- Telluride/San Miguel County: Developer impact fees; Sales/use tax; Other

Florida

- Dade County: Food and beverage tax; state & private funds; Carry-over funds
- Pinellas County: General Fund (County and Cities) Housing Finance Authority funds

Georgia

- Atlanta: Tax increment funds
- Savannah: General Fund

Illinois

- Arlington Heights Village: Inclusionary in-lieu fees; Annual tax exempt bond cap transfers; Future gaming revenue from slot machines
- Chicago: City Corp funds
- Evanston: Demolition tax; Inclusionary in-lieu fees
- Highland Park: Residential demolition tax; Equity from refinancing housing
- St. Charles: Inclusionary in-lieu fees

Indiana

- Evansville: Proceeds of sale of city property

- Indianapolis: Electronic filing fees for property sales disclosure forms; Document recording fees; Foundation and donor; Health and Hospital Corporation

Iowa

- 27 local funds: State match; Public/private investments; Other
- Council Bluffs: Public/private funds
- Dubuque: Public/private funds
- Sioux City: Public/private funds

Kentucky

- Lexington: General Fund
- Louisville: General Fund; National Mortgage Settlement Funds

Louisiana

- New Orleans: Property tax (cmtd to 2022)

Maine

- Portland: Fees generated by the Housing Replacement Ordinance; Inclusionary in- lieu fees

Maryland

- Howard County: Property transfer tax
- Montgomery County: Condominium Conversion tax; Developer approval fees; MPDU Program; General Fund; Housing finance; Interest income and other

Massachusetts

- 161 communities: property tax State matching funds
- Boston: Developer impact fees; Union agreement
- Cambridge: Developer impact fees; MA CPA Program Harvard 20/20 Program
- Salem: Developer contributions; Repayments
- Somerville: Developer impact fees; Inclusionary in-lieu fees

Michigan

- Ann Arbor: Sale of city-owned property; PUD developer fees
- Grand Traverse County: Tax foreclosure sales
- Kalamazoo City and County: County and City funds; Property tax millage

Minnesota

- Duluth: Casino revenues
- Minneapolis: Housing revenue bond fees; Miscellaneous funds; General Fund; Federal funds
- Redwing: Property tax levy
- St. Paul: Sales tax

Missouri

- St. Louis: Use tax
- St. Louis County: Document recording fee

New Jersey

- 296 communities: Developer fees

- 8 County Homeless Trust Fund: Document recording fee

New Mexico

- Albuquerque: GO bond revenues
- Santa Fe: Developer contributions

New York

- New York: Excess lease revenues
- Tompkins County: Appropriations from county and Ithaca; Funds from Cornell University
- Yonkers: Inclusionary zoning in-lieu fees

North Carolina

- Charlotte: Bond revenues

Ohio

- Columbus/Franklin County: Hotel/Motel tax; Real estate conveyance tax; General Fund; Capital
- Montgomery County: Sales tax
- Toledo/Lucas County: Parking garage revenues; General Fund; Capital

Oregon

- Ashland: Rehab loan repayments
- Bend: Percent of valuation on building permits
- Portland: Short-term rental tax; General Fund; Construction excise tax

Pennsylvania

- Act 137 (51 counties): Document recording fees
- Philadelphia: Document recording fees; Interest earnings

Tennessee

- Knoxville: General Fund
- Nashville: Airbnb tax; One-time commitment from the sale of city land; General Fund

Texas

- Austin: Inclusionary zoning in-lieu fees; Tax revenues being generated by property previously owned by the City; General Fund
- San Antonio: Finance corporation bonds; Interest and earnings; Housing finance

Utah

- Salt Lake City: RDA commitments

Vermont

- Burlington: Developer fees; Condominium conversion fees; Housing replacement fees; inclusionary in-lieu fees; Property tax
- Montpelier: Vermont Property tax

Virginia

- Alexandria: Developer contributions
- Arlington County: Developer fees (incl. zoning and proffers); County funds; Loan repayments
- Charlottesville: Capitol improvement program; General Fund

- Fairfax: Per unit cash contributions from developers of market rate home owner housing
- Fairfax County: Real estate tax; Developer proffers; General Fund
- Norfolk: General Fund; Surplus funds

Washington

- HB2060 and Homeless Trust Fund (39 counties): Document recording fees
- Bainbridge Island: Contribution
- Bellingham: Property tax levy
- East King County: County/cities funding commitments; Other
- King County: Credit enhancement program revenues; General Fund
- Seattle: Property tax levy; Commercial linkage fee

Wisconsin

- Madison: General Fund; Federal funds
- Milwaukee: Bond revenues; Property tax revenues