Funding to Community Land Trusts

Overview

Community land trusts (CLTs) are non-profit organizations that own land and develop it through inclusive community-based processes. Most CLTs develop these properties to provide affordable housing units to the local community, providing a significant benefit to the community. Nevertheless, CLTs suffer from a lack of consistent funding and most often, must compile complex funding streams for each property and unit they develop, slowing them in their mission and pivoting mission-focused operations to fundraising.

Community land trusts gain their funds both privately and publicly. In Pennsylvania, CLTs rely upon private donors, grants, municipal support, and state funding, including grants from the PHARE fund.

HUD's 1990s shift to federally-funded but locally-controlled affordable housing programs also helped to create additional funding pools that CLTs also rely on—Community Development Block Grants (CDBG) and HOME grants. However, funding for both programs has not kept up with inflation and these programs only account for a minor portion of HUD's current budget. Consequently, reduced funding for the CDBG and HOME programs has increased pressure on state and local governments to provide more funding to meet the growing demand for CLTs.

To help with CLTs' financing issues in Pennsylvania, our team identified three possible policy alternatives: (appropriation) bond financing, Tax Increment Financing (TIF) set asides, and the use of other consistent state funding sources (like gap financing for LIHTC projects). Each of these policy alternatives show potential for creating new state-level funding for CLTs as demonstrated by outstanding practices in other states.

Case Study: Bond Financing in Minnesota

In 2012, the Minnesota Legislature first authorized the Minnesota Housing Finance Agency (MHFA) to issue Housing Infrastructure Bonds (HIBs), a form of appropriation bonds, to fund loans for certain housing development purposes.[62] Minnesota's HIBs successfully leverage local, federal and private investment and are flexible in their design to account for different local circumstances. At this point, HIBs have become the largest state source of capital for affordable rental housing and homeownership development in Minnesota.[63]

Details on Minnesota's HIBs
The Minnesota legislature approved a series of laws authorizing HIBs and guardrails for HIBs, including authorized amounts, purposes of HIB funding, appropriation caps, and more. MHFA issues the HIBs.

- **Bond Nature**: HIBs are appropriation bonds, which require distinct 1) payback methods, 2) constraints for proceeds, and 3) voting rules (compared with general obligation bonds). In particular, appropriation bond proceeds are less constrained than state general obligation bonds.

[62] HIB - Housing Infrastructure Bonds
[63] Housing Infrastructure Bonds

Hence, HIBs can be used to fund the acquisition of or improvements to privately-owned property, which especially benefit CLTs and other affordable homeownership projects. [64]

- **Term and Payback**: HIBs typically have a 20-year term, and the principal and interest are paid solely from appropriations from the General Fund of the state. Full faith, credit, and taxing powers of the state are not pledged to repayment of the bonds, and only state appropriated money for debt service are to be used for payback of the bond. [65]
- **Use of Proceeds**: The proceeds of HIBs may be used by MHFA to fund non-recourse loans to finance the acquisition, rehabilitation, or construction of housing, including supportive housing for persons and families of low- and moderate-income. Loans funded with HIB proceeds can be structured with either 1) volume-limited private activity bonds, potentially qualifying the development for 4% tax credits, or 2) as deferred only loans. The deferred loans do not require any prepayment for the first 10 years from the date of the HIB mortgage note, but they can be repaid in full at any time after 10 years. CLTs are Section 501(c)(3) tax exempt organizations and mostly benefit from these deferred loans, as their loan payment can be either forgivable or repayable at maturity.
- **Project Selection**: About one third of loan applications typically get approved. In 2020, 35 eligible projects requested a total of $318 million in bond loans, which ended up with 14 of them being approved with a $98 million loan grant in total.[66]

Policy Impacts of Minnesota's HIBs

From 2012 to 2020, $400 million in HIBs were authorized leveraging over $775 million in total development costs. Over 4,700 units of housing have been created or preserved, including additional units in the development pipeline.[67] In 2022, the total authorized bond amount reached $515 million.

Year	Amount Authorized	Amount Selected/ Advanced*	# of Multifamily Projects	# of Single Family/Manuf. Housing Projects	Number of Units	Total Development Costs (MF)
2012	$30	$30	8	5	472	$59
2014	80	70	11	5	1,239	120
2015	10	20	4	4	162	35
2017	55	42	7	5	555	104
2018	80	29	14	6	464	61
2019	60	118	16	5	946	217
2020	100	102	14	10	872	178
Totals	**$415M**	**$411M**	**74**	**40**	**4,710**	**$774M**

*Amounts subject to change   Minnesota Housing | mnhousing.gov

Figure 32: Results From HIBs from 2012-2020 in Minnesota [68]

[64] State of Minnesota Senate Memo on MHFA Housing Infrastructure Bonds

[65] Supplement File to Minnesota Housing Finance Agency Series Bonds Official Statement

[66] Housing Infrastructure Bonds

[67] Ibid.

[68] Ibid.

Minnesota's HIBs also demonstrate the ability to leverage and grow government funds. In 2019, the amount of annual debt service for HIBs was projected to be $2.4 million for FY 2023 and $4.8 million per year thereafter.[69] In this sense, even with a conservative estimate, Minnesota's HIBs leverage about 20 times the value of public expenditure from private investments.

Case Study: Ohio's Use of the Housing Trust Fund

The Ohio Housing Finance Agency (OHFA) developed the Housing Development Assistance Program (HDAP) to preserve at-risk affordable housing, create new affordable rental housing, and develop affordable homeownership opportunities which benefit CLTs in Ohio. Funding from the Ohio Housing Trust Fund (OHTF), the HOME Program and the NHTF is allocated through HDAP and administered by OHFA.[70]

HDAP comprises three distinct programs specific to the size of project and type of funding requested by applicants. The programs are considered gap financing programs, which often work in conjunction with the LIHTC program. [71]

1. Housing Development Gap Financing (HDGF) program funded by OHTF and NHTF supports smaller projects not utilizing LIHTC by developers with less experience
2. Housing Credit Gap Financing (HCGF) program funded by OHTF and HOME supports projects utilizing the 9% LIHTC (in addition to HDAP) by experienced developers
3. Bond Gap Financing (BGF) program funded by OHTF, HOME and NHTF supports projects utilizing the 4% LIHTC and multifamily bonds (in addition to HDAP) by experienced developers

HDAP funds are awarded in the form of either loans with different interest rates or grants depending on the funding source. Grants distributed from OHTF/HOME have stricter eligibility requirements; while loans are more generally used: [72]

- Loans from OHTF/HOME: 2% interest and mature at the end of the affordability period
- Loans from NHTF: 0% interest deferred loan with a term no less than 30 years

In 2021, HDAP awarded $40.3 million in total to affordable housing projects across the state of Ohio. These investments are an example of successfully leveraged federal money, as the OHTF only contributed 29% of total funding, while the NHTF, in particular, accounted for the largest portion of 2021 total funding. Altogether, this successful example of leveraging significantly benefited organizations working on affordable housing projects, namely, CLTs.

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[69] State of Minnesota Senate Memo on MHFA Housing Infrastructure Bonds
[70] Amended Program Year 2021 Ohio Consolidated Plan Annual Action Plan
[71] Ohio Consolidated Plan Program Advisory Committee Meeting ——Housing Development Assistance Program (HDAP)
[72] Amended Program Year 2021 Ohio Consolidated Plan Annual Action Plan

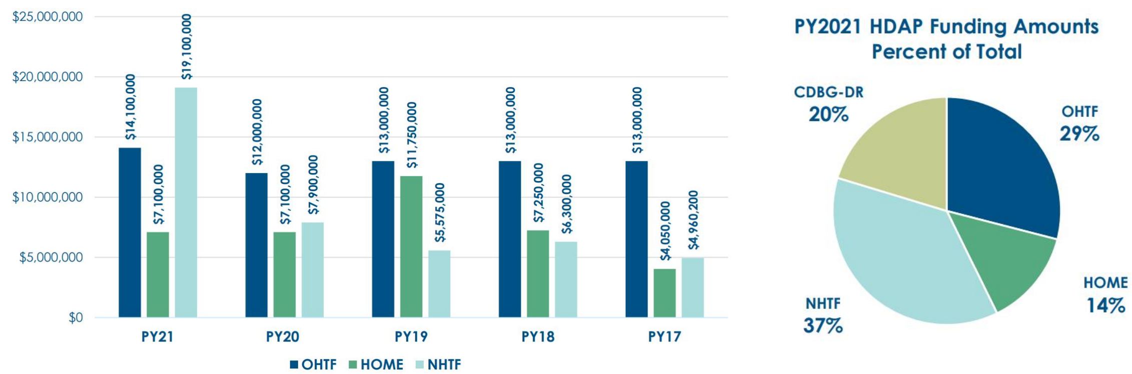

Figure 33: Funding Sources of the HDAP in Ohio [73]

Recommendations

Appropriation Bonds

Our team believes Pennsylvania could implement a similar model to Minnesota's HIBs, using state appropriation bonds to specifically finance affordable housing and homeownership projects, especially for the use of CLTs. Compared with general obligation bonds which need 3/5 of the votes for legislative approval, appropriation bonds only need a majority vote. PHFA could issue and administer these bonds once it gets authorization from the state legislature. After the issuance of the bonds, eligible developers, including CLTs, would apply for the proceeds of the bonds, in the form of deferred loans, as a new funding source.[74]

Concerns regarding this bond financing proposal are likely to come from the debt service required of those bonds. Fortunately, according to our analysis of Pennsylvania's treasury data, the Commonwealth of Pennsylvania has the capacity to issue new bonds and pay for additional debt service. For example, in terms of debt stock, the debt per capita in Pennsylvania was $3,833 in 2018, which is slightly higher than the 50-state median but still far lower than the states with more aggressive bond strategies like New York and New Jersey.[75] With respect to the debt service per se, it only accounts for a small fraction of current fixed costs (9%) to the state budget and also proportionally lower than the debt service in other states in a sense.[76] Therefore, either in the perspective of asset (total debt) or cash outflow (debt service), Pennsylvania demonstrates its capacity of carrying far more bonds and the feasibility of this alternative as well.

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[73] Ohio Consolidated Plan Program Advisory Committee Meeting ——Housing Development Assistance Program (HDAP)

[74] More details can be found in the case study of Minnesota HIBs.

[75] Pennsylvania Treasury Fiscal Health Scorecard

[76] Pennsylvania Treasury Fiscal Health Scorecard

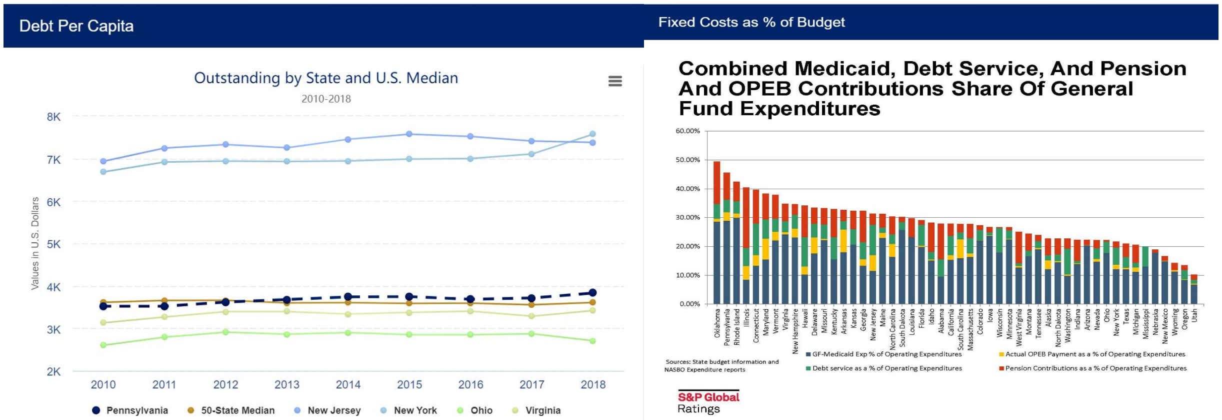

Figure 33: Debt Status of Pennsylvania [77]

Debt service for appropriation bonds is typically paid off using a variety of state appropriations, which suggests two possible funding sources for this repayment arrangement in Pennsylvania. One might be to use the state's general fund (which Minnesota uses), while the other might be the use of the state's housing trust fund, which in Pennsylvania is the PHARE fund. With recent increases to PHARE, it may be feasible to utilize the PHARE fund to cover this debt service.

Due to the exponentially larger size of the state's general fund, a greater number and greater value of bonds would be able to be issued. Hence, if the general fund becomes available to finance debt service, the number and value of bonds may correspondingly scale up.

Empirical data from Minnesota allows us to make a rough estimate about the annual impact of the use of bonds with different scales of debt service. For instance, a $5 million appropriation for debt service supported $100 million in authorized bonds, which funded additional affordable housing and incentivized construction worth over $200 million. Considering an average per unit construction cost of $225,000 in Pennsylvania, that $200 million would equate to approximately 889 new affordable housing units.[78] Thus, by issuing bonds, an initial $5 million appropriation from the Pennsylvania general fund or the PHARE fund, could create 889 affordable housing units in one year, demonstrating a strong multiplier effect.

[77] Ibid.

[78] Derived from the range $150,000-$300,000 suggested by our interviewees

Gap Financing

The team would also like to promote a similar gap financing mechanism as Ohio uses with HDAP for affordable housing and homeownership projects in Pennsylvania. PHFA can develop a similar gap financing program by itself through administrative process, using NHTF, HOME and the increased PHARE fund as funding sources. The main uncertainty related to this program would be its utilization of the NHTF, either the approval of this proposal to use NHTF funds, or more specifically, the amount potentially approved.

A gap financing program would help CLTs in Pennsylvania practically, as LIHTC is a critical funding source for all affordable housing in PA and some CLTs do benefit from LIHTC currently. Mosaic CLT is one that has significant experience using LIHTC funding.[79] Hence, as the needs for LIHTC have been proved, our team will thus expect a complementary gap financing program to stimulate more CLT projects correspondingly.

Empirical data from Ohio also suggested a 2-2.5 multiplication effect for this type of program. Specifically, with $10 million in new funding, which could come from the PHARE fund, such a gap financing program would be likely to receive $5-13 million in funding from NHTF and would ultimately create $20-25 million in total funding for affordable housing and homeownership projects in Pennsylvania. As the state fund contributes less than half of all available final funding, this approach of binding state and federal resources actually suggests a rather efficient way of utilizing state funds.

Other Possible Funding Ideas for CLTs

There are other approaches, including tax increment financing, that could also help to increase funding for Pennsylvania's CLTs. In 2006, Portland passed a TIF set-aside fund "to dedicate a percentage of Tax Increment Financing (TIF) revenues from all Urban Renewal Districts citywide to an affordable housing set aside fund"[80]. More recently, Maine used the TIF model to support affordable housing and associated infrastructure costs by collecting new property tax as revenue.

Our team, therefore, would also like to propose TIF set-aside funds in Pennsylvania to fund affordable housing and homeownership projects. Considering the fiscal and political feasibility, we would suggest that this TIF funding model be implemented on a small scale, likely at the city or county level, at first. One way to model the TIF could be to build affordable housing based on the tax increment of the assessed value on other affordable housing in the same area. Our interviewees noted that some current affordable housing projects have increased significantly in their assessed value, meaning that this increment could be viable in some locations.

Overall, all three alternatives have their own advantages and disadvantages, while the bond financing recommendation distinguishes itself through its huge potential impact. The gap financing program recommendation has its distinct advantages too, however, there is a feasibility concern with it, as several complex administrative processes would need to be navigated. Lastly, decisions involving establishment of affordable housing TIFs and bond financing would both require going through the legislative process and could encounter disagreement either politically or technically (considering the public budget). However, the bond financing policy alternative does have outstanding performance with regard to its significant multiplier effect, which would bring enormous opportunity to affordable housing in Pennsylvania and potentially reinvigorate the state economy in many ways.

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[79] Community Land Trusts in Pennsylvania Report

[80] Portland Housing Bureau History of TIF Set-Aside Policy