City Of Milwaukee

MILWAUKEE HOUSING TRUST FUND TASK FORCE

FINAL REPORT AND RECOMMENDATIONS

Issued June, 2006

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INTRODUCTION

The Milwaukee Housing Trust Fund Task Force was created by Common Council File Number 051017, which was adopted on December 13, 2005. This resolution directed the 13-member Task Force to "evaluate and make recommendations relating to the hiring of a consultant and the structure, goals, objectives, strategies, financial resources and programs for the City of Milwaukee HTF". The Task Force was given 180 days (June 13, 2006) to submit its findings and recommendations to the Common Council. This deadline was later extended to July 31, 2006, by Common Council File Number 060069. The City Clerk's Office -- Common Council Records Section and Legislative Reference Bureau -- provided staff support to the Task Force. Other City departments that regularly assisted the Task Force in carrying out its duties included the City Attorney's Office, the Comptroller's Office, the Department of Administration and the Department of City Development.

TASK FORCE MEMBERSHIP

The 13 members of the Milwaukee Housing Trust Fund Task Force are:

Ald. Michael Murphy, chair (appointed by the Common Council President)
Ald. Michael McGee, Jr., vice-chair (Common Council President)
Tom Capp, Gorman & Co. (Common Council President)
Supervisor Marina Dimitrijevic, Milwaukee County (Common Council Pres.)
Heather Dummer Combs, Interfaith Conference of Greater Milwaukee (Common Council President)
Rocky Marcoux/Una Van Duvall (Commissioner of City Development/Commissioner's designee)
Lucia Murtaugh, Interfaith Conference of Greater Milwaukee (Common Council Pres.)
Tony Perez/Bobbi Marsells (Executive Director, Housing Authority of the City of Milwaukee, and his designee)
Brian Peters, Independence First (Common Council President)
Leo Ries, Local Initiatives Support Corporation (Common Council President)
Bethany Sanchez, Metro. Milwaukee Fair Housing Council (Common Council Pres.)
Mike Soika, YMCA Community Development Center (Common Council President)
Robert Shelledy, Archdiocese of Milwaukee (appointed by the Mayor)

MEETING DATES

The Milwaukee Housing Trust Fund Task Force convened on the following dates:

February 27, 2006
March 27, 2006
May 4, 2006
May 10, 2006
June 5, 2006
June 15, 2006

SUBCOMMITTEES

At its first meeting, the Task Force established two subcommittees, the Financing Models Subcommittee and the Operational Criteria Subcommittee. The Financing Models Subcommittee was charged with setting a targeted annual amount of money to be available for the Trust Fund, as well as identifying and evaluating potential sources of revenue to support the Trust Fund. To carry out these responsibilities, the Subcommittee met four times (details of the Subcommittee's deliberations are presented under the section "Financing the Housing Trust Fund"). The members of the Financing Models Subcommittee were:

Leo Ries, chair
Lucia Murtaugh, vice-chair
Heather Dummer Combs
Sup. Marina Dimitrijevic
Robert Shelledy
Mike Soika
Rocky Marcoux/Una Van Duvall

The Operational Criteria Subcommittee was given the responsibility of making recommendations on the following issues:

- Which agency will be responsible for administration of the Housing Trust Fund? Will there be a body that provides oversight of the administering agency, and what will its composition be?
- Which types of projects will be eligible for funding from the Housing Trust Fund (e.g., home ownership, rental or housing for the homeless; new construction vs. rehabilitation; for-profit vs. non-profit development)? How much funding should be earmarked for each category?
- For how long shall housing units built or rehabilitated with Housing Trust Fund dollars be required to remain affordable?
- What income limits shall apply to persons or households eligible to live in units financed by the Housing Trust Fund (e.g., maximum of 50% of County Median Income for renters and 80% of County Median Income for homeowners)?
- What accessibility standards shall apply to housing financed by the Housing Trust Fund?

The Operational Criteria Subcommittee met on six occasions to discuss these issues and formulate its recommendations. Its deliberations are detailed in the section titled "Operation of the Housing Trust Fund". The members of this Subcommittee were:

Bethany Sanchez, chair
Tom Capp, vice-chair
Heather Dummer Combs
Tony Perez /Bobbi Marsells
Brian Peters
Rocky Marcoux/Una Van Duvall

HIRING OF A CONSULTANT

Common Council File Number 050755, passed October 18, 2005, appropriated $25,000 from the Harassment Settlement Trust Account in the Permanent Improvement Fund to be used to hire a consultant to perform various tasks relating to creation and implementation of a City of Milwaukee Housing Trust Fund, including development of a formal structure for administration of the Housing Trust Fund, recommendation of guidelines for selection and development of projects to receive Trust Fund support, and identification of on-going sources of revenue to support the Trust Fund. However, early on, the Housing Trust Fund Task Force decided that the hiring of a consultant was unnecessary, since the responsibilities and areas of investigation for the 2 Task Force subcommittees were very similar to the proposed duties of the consultant.

ECONOMIC IMPACTS OF INVESTMENT IN HOUSING

The Housing Trust Fund Task Force and its Financing Models Subcommittee invested considerable time and effort in identifying and evaluating options for funding the Housing Trust Fund. However, a housing trust fund, like any investment in housing development, not only consumes funds, but also generates significant economic benefits for the community. Based on an analysis conducted by the National Association of Home Builders, if $5 million from a housing trust fund were used to leverage $25 million in funds from other sources to construct 200 housing units, 200 jobs would be created during the construction of the project, along with 94 jobs each year thereafter. This investment in housing would also generate $10 million in local income during the construction year and $4.4 million annually thereafter. Finally, a $5 million investment in a housing trust fund would generate an additional $1.2 million in local-government fee and tax revenues the first year and $760,000 per year thereafter.

FINANCING THE HOUSING TRUST FUND

The Housing Trust Fund Task Force and its Financing Models Subcommittee strived to identify funding sources that are: 1) new sources of revenue, rather than revenue diverted from existing, presumably worthwhile uses; 2) on-going, predictable sources of revenue, rather than one-time sources or sources that generate amounts which could fluctuate widely from year to year. Also, in generating new revenue for the Housing Trust Fund, the City must be careful not to exceed any revenue cap or tax levy freeze imposed by the State of Wisconsin or jeopardize the City's eligibility for the Expenditure Restraint Program. Generally speaking, if the City designates $5 million in existing revenues for use by the Housing Trust Fund, it must carve out $5 million elsewhere in the budget to avoid exceeding revenue caps.

In identifying and evaluating options for financing the Housing Trust Fund, the Financing Models Subcommittee placed the options in 2 broad categories: 1) those for which no changes in state legislation are needed; 2) those for which changes in state legislation are needed. Each of the funding options investigated by the Financing Models Subcommittee is described below.

Funding Options With No State Legislation Required

TIF-Equivalent General Fund Revenue Contribution

When a tax incremental district (TID) is closed, the City could, through its annual budget process, make a policy decision to earmark for the Housing Trust Fund, for a period of 3 or 4 years, General Fund revenue in an amount equivalent to the City's share of the tax increment that was previously used to pay off the TID. In other words, even though the incremental revenues from properties in the closed TID would be going into the General Fund and could be used to support general City operations, the City would forego use of these funds for a few years so that they could support the Housing Trust Fund. Of course, each year the Common Council would have to make a decision regarding the amount of General Fund money to be appropriated to the Housing Trust Fund in the City budget. Thus, fiscal pressures and needs for other City services could result in significant fluctuations in the annual appropriations to the Housing Trust Fund. Also, Subcommittee members were concerned about the "hole" in the City budget that would be created by the diversion of these tax revenues to a new use (Housing Trust Fund) and the fact that the TIF-equivalent tax revenues may be counted toward the City's revenue cap. Nevertheless, the Subcommittee viewed the TIF-equivalent revenue proposal as one of the more politically feasible options for financing the Housing Trust Fund. The Subcommittee noted that other taxing jurisdictions that forego tax revenues in the tax increment financing process (e.g., Milwaukee County) could do the same thing with their post-closure shares of incremental tax revenues.

Using a Portion of the City's Bonding Authority to Fund the Housing Trust Fund

Another funding option for the Housing Trust Fund is to have the City sell general obligation bonds to generate the start-up capital needed to establish the Trust Fund. Alternatively, the City could issue bonds in any year that Housing Trust Fund revenues from other sources do not reach the annual funding goal for the Trust Fund. The Comptroller's Office has indicated that bonding is a viable option for funding the Trust Fund. However, issuance of the bonds would be subject to voter approval, through a referendum, unless the bonds would be used for a public purpose that is listed in the statutes as one of the exemptions from the referendum requirement. The Comptroller's Office reported that the list of exemptions is fairly extensive and includes 4 or 5 housing-related purposes, including "removal of blight" and "housing rehabilitation". Also, under federal law, money raised though government bonding must be spent for a tax-exempt purpose. If the Common Council decides to capitalize the Housing Trust Fund through bond-sale proceeds, the Council must authorize the sale of bonds for this purpose in the annual City budget.

This option could be used in tandem with the TIF-equivalent revenue option: the TIF-equivalent revenue contributions to the General Fund could be earmarked for repayment of the bonds. Other options for paying off the bond debt that might make this option more politically palatable than repayment through the tax levy would be linkage fee or parking surcharge revenues (see options below).

Fee or Surcharge on Downtown Parking Spaces

Currently, the City lacks the legal authority necessary to levy a tax or fee on private parking spaces. Thus, use of a parking fee to fund the Housing Trust Fund is presently limited to imposing such a fee on spaces in the 4 City-owned downtown parking structures. Revenues from these structures go into the Parking Fund, an enterprise fund that is separate from the City's General Fund and is used to finance the City's on- and off-street parking expenses. The City Attorney's Office has indicated that a City ordinance would be needed to allow Parking Fund monies to be used to support the Housing Trust Fund.

The 4 downtown structures contain 3,238 parking spaces available for public use, with an average weekday occupancy rate of 76% and 2005 revenues of $6.1 million. According to the Department of Public Works, the monthly parking rates are slightly below market rates, while short-term rates are comparable with rates in privately-owned structures. There are currently 2,984 monthly unreserved parkers using the 4 downtown structures.

The Subcommittee considered a proposal to increase monthly unreserved parking rates at the 4 City-owned structures by $5 to $20 per month, or to set the rate at $100 per month at all 4 structures. Assuming that the rate increase would produce no decrease in the number of monthly parkers, the increase in revenue from unreserved monthly parking at the downtown structures would range from $179,040 to $716,160, depending on the amount of the rate increase.

The Department of Public Works evaluated the proposal to increase the rates at the City's 4 downtown parking structures and offered these comments:

- City-owned structures were developed to serve the public, rather than customers or employees of particular businesses, as is the case with many privately-owned parking structures. Thus, the customers of City-owned structures do not constitute a "captive market" and are likely to consider other parking options if rates are increased. This means that City-owned structures are more sensitive to pricing and location than privately-owned structures.
- Parking-rate increases do not necessarily lead to increases in parking revenues. Rates at City-owned structures were increased twice since 2002, but have remained flat since that year.
- City-owned structures are not operating at capacity. Any increase in parking rates may further reduce occupancy at these structures.

<u>Proceeds from the Sale of City Land</u>

Over the past five years, annual proceeds from the sale of vacant, City-owned lots have ranged from $180,006 to $362,524. However, based on information provided by the Department of City Development, it appears that these funds are not readily available for the Housing Trust Fund. When a tax-deed property is sold, the sale proceeds must be used to pay back taxes, outstanding utility bills and environmental costs, as well as closing costs incurred by DCD. In addition, the Redevelopment Authority receives 20% of the proceeds to cover its costs of marketing the property (i.e., DCD staff time). The City Code requires that any residual funds go to the Tax Deficit Fund. An ordinance would be necessary to designate these funds for Housing Trust Fund use.

The Department of City Development also indicated that the City often uses its land as an in-kind contribution for development projects it is supporting. Thus, if sale proceeds were to be used for the Housing Trust Fund, the goal of supporting affordable housing would be pitted against the goal of encouraging development projects.

Portion of the City's Potawatomi Bingo Casino Revenues
This option would designate all or part of any increase in Potawatomi revenues above the current amount ($3.38 million per year) for the Housing Trust Fund. With the planned expansion of the casino, revenues are expected to increase considerably ($2 million to $4 million annually, according to press releases), although the impact of the expansion could be tempered by the proposed development of a gaming facility in Kenosha. The Financing Models Subcommittee also discussed the possibility of negotiating with the Potawatomi for a direct contribution to the Housing Trust Fund, rather than having the City serve as a pass-through agent for the contribution.

Revenues from Franchise Agreements with Time Warner Cable or Midwest Fiber Networks
These options were discussed only briefly since pending federal legislation may reduce the Time Warner payment to the City (currently $3.6 million per year) or eliminate it altogether, and Midwest Fiber Networks has not yet developed its wireless network or made any payments to the City.

Revenues from Leasing of Telecommunications Antenna Sites on City Property
In 2006, the City will receive $237,798 from 11 leases for antenna sites. These revenues currently go into the General Fund. Thus, designation of lease revenues for use by the Housing Trust Fund would come about by the Common Council simply appropriating a corresponding amount for the Trust Fund in the annual City budget. However, the City would either have to cut services, increase taxes or identify new revenues to compensate for this diversion of General Fund revenues to the Housing Trust Fund. Also, due to competition from Internet phone providers and consolidation in the phone service industry, there is very little potential for growth in revenues from this source.

Funding Options for Which Changes in State Legislation Would Be Required

Linkage Fee or Impact Fee on Development
Such a fee, which would most likely be tied to the size of a project (i.e., $X per square foot), would apply to new construction and major renovation of residential, commercial and/or industrial property. Fee revenues would be designated for use by the Housing Trust Fund. The Department of City Development provided data which indicate that, based on the amount of construction in the City of Milwaukee in 2005, a linkage fee of $0.25 per square foot of new construction could generate nearly $1.3 million in revenue annually.

The Financing Models Subcommittee reviewed information on the use of linkage fees to fund affordable-housing initiatives in other major cities, notably Boston, Sacramento, San Diego and San Francisco. Also, Pam Fendt from the University of Wisconsin-Milwaukee provided the Subcommittee with a copy of the Good Jobs and Livable Neighborhoods "Linkage Policy Proposal for the Park East Corridor" dated July, 2003, which was not adopted by the City but which would have allowed developers in the Park East Corridor to choose between providing affordable housing units or participating in the linkage-fee program. Ms. Fendt maintained that linkage fees are not cost-prohibitive, particularly when compared to the cost of compliance with

City building-code requirements. She also indicated that her colleague at UWM, Professor Marc Levine, has found no evidence that linkage requirements discourage development.

Some Subcommittee members expressed concern that the levying of an impact fee would put the City at a competitive disadvantage in terms of competing with suburban communities for new development. It was suggested that perhaps the City could offer some kind of incentive or bonus to developers (e.g., tax break) in exchange for contributing to the Housing Trust Fund through the impact fee. However, state legislation would most likely be required for this incentive as well.

Under current state law, Wisconsin communities have the ability to collect impact fees on new developments to fund public facilities (e.g., roads, sewers, schools, fire stations) that are needed because of the public-service impacts of those developments. However, according to the City Attorney's Office, state enabling legislation would be needed to allow linkage fees that fund expenditures or programs not directly related to the development, such as affordable-housing programs.

<u>Allocating a Share of the Real Estate Transfer Fee to the City</u>
Currently, state law provides that the State of Wisconsin shall retain 80% of real estate transfer fee revenues, with the remaining 20% going to the counties in which the transfer fees were collected. To provide revenue for the Housing Trust Fund, state law would have to be changed to allow or require counties (or just Milwaukee County) to transmit a portion of their revenues to individual municipalities. If the provision were discretionary, the City would have to negotiate with Milwaukee County for a share of its transfer-fee revenues. In the past, the County has not been supportive of proposals to reduce its share of the transfer-fee revenues. Milwaukee County anticipates receipt of $2.83 million in transfer-fee revenues in 2006.

An alternative would be to change state legislation in a manner that leaves the County's share untouched, but reduces the State of Wisconsin's share from 80 % to perhaps 75%, with the remaining 5% being designated for local housing trust funds.

<u>Surcharge on Tickets for Entertainment Events</u>
This option, which called for adding a $1 surcharge to any ticket valued at $30 or more, received little discussion due to the necessity to change state law and the apparent lack of political viability.

<u>Increasing the Hotel/Motel Tax</u>
Again, this option received little discussion due to the need for state legislation and the lack of political feasibility.

<u>Establishing an Income-tax Credit for Contributions to the Housing Trust Fund</u>
The idea behind this option is to give any individual or corporate donor who makes a contribution to the Housing Trust Fund (or to any project that serves the population targeted by the Trust Fund) a credit on the donor's income taxes. A credit equal to 50% of the amount of the donation was discussed. According to research conducted by the Local Initiatives Support Corporation, 17 states have already implemented a tax-credit program similar to the one proposed. One particular advantage of this option is that it would encourage the infusion of

funds from wealthy individual and corporate donors in Milwaukee suburbs to the Housing Trust Fund, thus geographically broadening the revenue stream.

Another way to encourage private donations to the Housing Trust Fund would be to have the Trust Fund administered by a non-profit, s. 501(c)(3) organization, so that donors could use the existing deductions for charitable contributions.

Using TIF Revenues to Fund Affordable-Housing Projects Outside Individual Tax Incremental Districts

Besides the proposal to allocate the TIF-equivalent revenues to the Housing Trust Fund through the General Fund budget, the Financing Models Subcommittee discussed a number of TIF-related proposals that would require a change in state law before they could be used. Under one option, tax incremental revenues from individual TIDs could be pooled and used to fund affordable-housing projects outside of the TIDs in which those revenues are generated. The City of Minneapolis, with the benefit of state enabling legislation, uses a similar program that pools TIF revenues to support the city's "Common Fund". Another approach would be to amend state TIF law to allow revenues from high-performing TIDs to support the activities of the Housing Trust Fund. Yet another variation on the TIF approach would entail amending state TIF law such that a TID could be kept open for a modest period of time after all debt has been retired (perhaps 2 to 4 years), with the increment revenue stream being directed to the Housing Trust Fund for the period of time after the retirement date. Finally, the Subcommittee discussed the possibility of establishing a city-wide TID encompassing all vacant land in the city, similar to a city-wide TID already established in Flint, Michigan. Once these vacant properties are improved, the incremental tax revenues would be used to pay off the bonds sold to finance the Housing Trust Fund or in some other way fund the Housing Trust Fund. The City Attorney's Office verified that state legislation amending Wisconsin's TIF law would be needed before any of these TIF options could be used to finance the Housing Trust Fund.

Other Taxes and Fees

The Financing Models Subcommittee also briefly discussed the option of pursuing state legislation that would allow cities and counties to create and collect fees and taxes that are earmarked for the specific purpose of financing housing trust funds.

Funding Level for Trust Fund

The Financing Models Subcommittee discussed various Housing Trust Fund funding levels ranging from $5 million to $15 million annually. The $5 million figure received the most consideration. There was some concern that the City's current housing-delivery system may not be able to develop affordable housing at the rate this $5 million annually would allow. Subcommittee members also indicated that the $5 million would be more achievable if a mixture of revenue sources were used to fund it, rather than relying on just one or 2 revenue streams.

OPERATION OF THE HOUSING TRUST FUND

As mentioned earlier, the Operational Criteria Subcommittee discussed several issues relating to administration and oversight of the Milwaukee Housing Trust Fund, including the types of projects that should be eligible to receive Trust Fund support, the share of funds that should go to each project category, the income groups to be targeted by Trust Fund projects and the appropriate agency for administering the Trust Fund. The Subcommittee's deliberations on these and other topics are summarized below.

Administering Agency

The Operational Criteria Subcommittee discussed the possibility of having the Housing Trust Fund administered by DOA-Community Development Grants Administration Division, the Housing Authority, the Department of City Development, an existing or newly-created non-profit organization, or some other entity.

A representative of the Community Development Grants Administration Division indicated that his agency would be able to administer these funds. However, there was some concern that this agency or the Common Council might then use Trust Fund dollars to simply replace lost revenue from other sources (namely, Block Grant funds).

A representative of the Housing Authority stated that her agency is not interested in taking on this responsibility. Since the Housing Authority is a potential recipient of Housing Trust Fund dollars, there is also a potential conflict of interest.

The Subcommittee also briefly discussed the possibility of having a separate agency monitor compliance with the Housing Trust Fund program requirements (e.g., maintaining affordability)

Oversight Body

In addition to the administering agency, the Subcommittee also felt that the Housing Trust Fund (and the agency that administers it) should be overseen by an advisory board. This advisory board would give policy direction to the administering agency, oversee the grant/loan application process and make recommendations to the Common Council for funding of selected projects. Some Subcommittee members stressed the importance of requiring the advisory board to solicit comments from the public and City departments before making final funding recommendations. There was discussion about whether these public hearings should be held concurrently with the annual hearing on the City's Community Development Block Grant funding allocation plan or at some other time. The Subcommittee felt that the advisory board should represent a broad range of interests, including elected officials, government agencies, for-profit and non-profit developers, financial institutions, community-based organizations and housing advocacy groups.

The Subcommittee also agreed that the advisory board should adopt a plan for administration and operation of the Housing Trust Fund. This plan should be regularly updated (every one to 3 years) by the advisory board to reflect changing housing needs and changing market conditions. The Subcommittee further felt that City staff should periodically evaluate housing needs in the city and provide reports on those needs to the board.

Uses of Funds
The Operational Criteria Subcommittee members agreed that Housing Trust Fund dollars should support non-profit and for-profit developers and governmental entities in the acquisition, construction, rehabilitation and accessibility modification of affordable housing for low-income households in Milwaukee. They also felt that the Trust Fund should be used to fund support services (e.g., home-purchase counseling) that assist low-income households in obtaining and maintaining affordable housing. The Subcommittee agreed that Housing Trust Fund dollars should not be used to cover the costs of administering the program.

Eligible Projects
Early in its deliberations, the Operational Criteria Subcommittee decided that 3 types of projects should be eligible for Housing Trust Fund support: owner-occupied homes, rental units and housing and services for persons who are homeless. However, there was considerable debate as to what percentage of the Trust Fund dollars should be allocated to each of these project categories and how rigid the percentages should be (i.e., should there be fixed percentages or percentage ranges for each category?). Overall, the Subcommittee sought to balance the need to ensure adequate funding for each category with the desire to maintain flexibility in the allocation of funds, so that funding can be shifted if special needs arise.

Another consideration in terms of eligibility was how the Trust Fund money will fit in with overall financing of a project. Subcommittee members felt that the Trust Fund should be used to complement other sources of financing and to close funding gaps, but should not be the primary source of funds for a project. One area in which funding gaps currently exist is WHEDA tax credit projects, where many developers that are ineligible for 9% credits but eligible for 4% credits have difficulty lining up all the financing needed to make their projects work.

The Subcommittee stressed the importance of using Trust Fund dollars to leverage funds from other sources, although there was some concern that leveraging would favor new construction over rehab projects. It was noted that the San Diego housing trust fund leverages $8 for every $1 expended from the trust fund. Some members also felt that Trust Fund dollars should be used for projects that are ineligible for federal funding (i.e., low- to middle-income projects), thereby leaving the federal funds for very-low-income projects. As far as distribution of funds to individual projects, the Subcommittee expressed support for using a competitive application process.

Term of Affordability
It was the consensus of the Operational Criteria Subcommittee that a project should only receive Housing Trust Fund support if the developer agrees to maintain the affordability of the housing units for a certain period of time. The term of that affordability was the subject of considerable debate, however. Some subcommittee members felt that affordability of rental units should be required for a term of 15 years (consistent with the term of affordability for federal/state tax-credit projects and CDBG projects), while others felt that a longer term of affordability (or permanent affordability) is needed.

Proponents of the 15-year limit noted that option’s ease of administration (i.e., all funding sources for a Trust Fund-supported project would require the same term of affordability), as well as the need of property owners to replace major building systems after 15 to 20 years (thus limiting their financial ability to keep the building affordable after that point). One Subcommittee member contended that affordable housing deteriorates faster if it has a longer term of affordability. This member also noted that the required term of affordability probably matters less to the developer than to the community in which the affordable housing in located, since the community wants to ensure that the condition of the housing does not deteriorate.

Supporters of a longer term of affordability noted that more low-income people could benefit from the Housing Trust Fund if long-term affordability were required. It was noted that the term of affordability under San Diego's housing trust fund program may be as much as 55 years.

While the Subcommittee debated at length the term of affordability for rental housing, there was broad consensus regarding the term of affordability for owner-occupied housing. Committee members felt that a loan to a homeowner should be forgiven if the homeowner owns the property for at least 5 years. On the other hand, if the homeowner sells the property sooner than 5 years from the date of the loan, the homeowner should be required to repay the entire loan amount unless the sale is to another income-eligible household.

<u>Income Guidelines</u>

Members of the Operational Criteria Subcommittee expressed a wide range of opinions regarding which income groups should be targeted by the Housing Trust Fund. There was a philosophical split between members who want the Trust Fund used to serve households at 80%-120% of County Median Income ("CMI") (as a way to stabilize neighborhoods and stimulate development) and those who believe the very poor should be the primary beneficiaries of the Housing Trust Fund (because their needs are most acute and least likely to be met by private developers). County Median Income for a family of 4 is currently $67,200.

It was noted that households that are slightly above 80% of CMI (currently $53,760 for a family of 4) are no longer eligible for certain federal housing funds. This is one group the Trust Fund might wish to target. Other Subcommittee members felt that 80% should be the limit, while still others noted the huge need for affordable rental housing among households at or below the 50% level (currently $33,600), or even the 30% level (currently $20,160). It was also noted that the income limit for Section 8 rental housing is 60% (currently $40,320), whereas for public housing it is 80%, thus creating a need for affordable housing among people in the 60-80% range as public housing is converted to private, Section 8 housing. Some Subcommittee members felt that if the goal of the Trust Fund is to complement existing housing-subsidy programs, which target the lowest-income categories, the 80% level would be most appropriate.

The Subcommittee generally favored a higher affordability threshold for owner-occupied housing than rental units. There was general support for an 80% limit for owner-occupied housing. It was also noted that many inclusionary housing programs across the country set the limit for owner-occupied housing at 80%, 100% or even 120% of CMI, because homeownership is becoming increasingly unattainable for households at those income levels.

It was noted that the majority of affordable rental units being created by private developers target the 50% and 60% income limits. Developers have moved away from "deep targeting" (i.e., doing projects aimed at households making less than 30% or 40% of CMI) because rising construction costs have made it increasingly difficult to do quality projects for such low rents.

Accessibility Standards

The consensus of the Operational Criteria Subcommittee was that all new or rehabilitated housing units (rental or owner-occupied) funded by the Housing Trust Fund should meet standards of "visitability" and "universal design". A home that is "visitable" is one that is not fully accessible to the disabled, but has certain basic features that make it user-friendly for persons with mobility limitations. The three basic features for a visitable home are: 1) at least one zero-step entrance on an accessible route to the house; 2) all interior main-floor passage doors shall be at least 32" wide; 3) the main floor shall have a half bath or full bath with some wheelchair maneuvering space.

"Universal design" is the design of products and environments to be useable by all people, throughout their lifespan and to the greatest extent possible, without adaptation or special design. Developed at Kansas State University, the 7 principles of universal design include "equitable use" (the design is useful and marketable to people with diverse abilities), "flexibility in use" (the design accommodates a wide range of individual preferences and abilities) and "low physical effort" (the design can be used efficiently and comfortably with a minimum of fatigue).

Other Issues

The Operational Criteria Subcommittee also discussed the following issues:

- Perhaps the Housing Trust Fund could have a capacity-building component -- i.e., Housing Trust Fund money would be used to fund the training and operations of non-profit organizations that are striving to build affordable-housing components. San Diego's housing trust fund has a similar capacity-building component.
- For a rehabilitation project supported by the Housing Trust Fund, to what extent should the rehabilitation work bring the building up to (or exceed) current building code standards? Should all code violations be corrected? It was noted that the federally-funded Neighborhood Improvement Program actually requires the developer or owner to "overimprove" the building, thus reducing the amount of funds that might otherwise be available for other projects.
- It may be beneficial to set aside a small portion of the Housing Trust Fund for projects that don't neatly fit into any of the established funding categories, but are nonetheless worth funding.
- In selecting projects to receive Housing Trust Fund dollars, the administering agency could award extra points to developers or projects that meet or exceed thresholds in such areas as use of EBE contractors, leveraging of funds, neighborhood diversity and use of green building principles.

PRESENTATION BY MARY BROOKS

On May 4, 2006, the Housing Trust Fund Task Force received a special presentation by Mary Brooks, project director for the Housing Trust Fund Project of the Center for Community Change in Washington, D.C. Key points of Ms. Brooks' presentation included:

- Today there are over 400 housing trust funds in states, counties and cities across the country.
- Almost every housing trust fund is administered by a governmental agency or department.
- A housing trust fund has 3 components: 1) administration (the administering agency plus an oversight board); 2) program (types of housing projects funded, targeted income levels and means of disbursing funds); 3) funding and revenue sources (more than 40 different revenue sources have been used nationwide; linkage fees are the most commonly use source of funds for local housing trust funds).
- It is important that creators of a housing trust fund identify new, dedicated revenue sources to support the fund, so that the housing trust fund does not divert revenues from the general fund.
- Housing trust funds typically target the lowest-income segment of the community. Whichever income segments are targeted, funds will typically go to projects serving the highest-income segment among those segments, since those projects would be easiest for developers to finance.
- Broadening the applicability of a housing trust fund (i.e., increasing the number of income segments or types of housing projects eligible to benefit from the trust fund) actually dilutes support for the fund.
- Housing trust fund advocates need to communicate that housing development is good for the economy (i.e., housing construction creates jobs and adds to the tax base).
- Long-term affordability requirements need to be attached to financial assistance awarded through a housing trust fund.
- Accessibility and green-design requirements should also be part of a housing trust fund program.
- The operational characteristics of a housing trust fund should be evaluated every year and adjusted as necessary.

RECOMMENDATIONS OF THE TASK FORCE

Based on its research, analysis and discussions, the Housing Trust Fund Task Force developed recommendations in the 2 main areas of investigation, financing and operations. The recommendations of the Task Force are as follows:

Financing the Housing Trust Fund

1. The Housing Trust Fund should be funded at a minimum level of $5 million annually.

2. The City should issue $5 million in general obligation bonds to fund the Housing Trust Fund in its first year of operation, with debt service being funded by the property tax levy. These bonds should be issued in such a manner that it is clear that bond-sale proceeds will be used for a purpose for which the City would be exempt from the requirement to hold a referendum on the bond sale, as provided in the Wisconsin Statutes. This bond sale should be viewed as a one-time commitment intended to provide start-up funding for the Housing Trust Fund. It is anticipated that funding from other revenue sources, including those for which changes in state legislation are necessary, will provide the funding needed for the Housing Trust Fund in the second and subsequent years.

   Assuming a 15-year term and an interest rate of 5%, annual debt service payments for this $5 million bond issuance would range from $350,000 to $583,333.

3. If future City payments from the Potawatomi Bingo Casino exceed the current amount of $3.38 million per year, the additional revenues shall be dedicated for the Housing Trust Fund. According to statements in the press, if the casino is expanded, payments to the City could increase by $2 million to $4 million.

4. When a tax incremental district is closed, for each of the 4 years immediately following the year in which closure occurred, the City shall designate General Fund revenue for the Housing Trust Fund in an amount equal to the incremental tax revenue (City portion) received from the TID during the last tax collection cycle in which the tax incremental district was in existence. Thus, for any year in the future – 2010, for example -- the total funds generated for the Housing Trust Fund for that year would be the final-year tax increment (City portion) for all TIDs that were closed in the preceding 4 years (in this case, TIDs that closed in 2006, 2007, 2008 and 2009).

Based on TID-closure years anticipated by the Department of City Development and the Comptroller's projection of the City tax increment from each tax incremental district in the TID-closure year, this option could generate the following revenues for the Housing Trust Fund over the next 10 years:

2007	$2,674,900
2008	$3,115,000
2009	$3,431,800
2010	$3,684,500
2011	$1,068,100
2012	$628,000
2013	$1,741,300
2014	$1,712,800
2015	$1,890,400
2016	$2,869,400

Note: In developing these projections, the Comptroller's Office assumed that no new TIDs will be created and closed within the 10-year period, that equalized values of TIDs will increase 8% per year over the 2005 "base" equalized value and that the City tax rate will continue to decrease until 2011, after which time it will level off.

5. 80% of the net proceeds from the sale of City-owned vacant land should be designated for the Housing Trust Fund. The remaining 20% would continue to go to the Redevelopment Authority for its administration of the land-sale program. Based on actual City land-sale proceeds over the past 5 years, it appears that this option could generate $132,000-$275,000 for the Housing Trust Fund each year.

6. Any payments in lieu of taxes ("PILOTs") received by the City from newly-negotiated PILOT agreements with owners of tax-exempt property should be dedicated for the Housing Trust Fund. Based on recent experience, PILOTs could generate $20,000-$27,000 per year for the Housing Trust Fund.

7. The City, through appropriate Common Council resolutions and the efforts of the Department of Administration-Intergovernmental Relations Division, should seek introduction and passage of state legislation that would:

- Allow revenues from tax incremental districts to be used for housing trust fund purposes outside those districts.
- Allow municipalities to assess linkage fees in the range of 10 to 30 basis points per square foot of new construction (both residential and non-residential), with the proceeds from such fees being available to support local housing trust funds.
- Create a 50% state tax credit for contributions to housing trust funds.
- Enable municipalities and counties to levy taxes and fees that solely support housing trust funds. Such taxes and fees should be exempt from state-imposed revenue caps or tax-levy freezes.

- Create a State of Wisconsin housing trust fund to be funded, at least in part, by real estate transfer fee proceeds, with no funds coming from local governments. Specifically, this housing trust fund should be funded by 5% of the real estate transfer fee revenues (i.e., the share of transfer fee revenues retained by the State for other purposes would be reduced from 80% to 75%).
- Increase the amount of the real estate transfer fee statewide from $3 per $1,000 of sale price to $4 per $1,000, with the increased revenues being dedicated to the state housing trust fund (if one is created) or to local housing trust funds (if no state housing trust fund is created).
- Eliminate the exemption from the requirement to pay the real estate transfer fee that currently applies to transfers involving purchasers that are limited liability companies ("LLCs"), with the additional transfer fee revenues being dedicated to the state housing trust fund or, if no state fund is created, to local housing trust funds.

<u>Operation of the Housing Trust Fund</u>

1. The Housing Trust Fund should be administered by the Community Development Grants Administration Division of the City's Department of Administration. If this agency is unable or unwilling to assume this responsibility, the Department of City Development/Neighborhood Improvement Development Corporation should administer the program. A third, but less-preferred, option would be to have a private, non-profit agency administer the Trust Fund.

   While the Housing Trust Fund would be administered by Community Development Grants Administration, requests-for-proposals, public hearings and funding-allocation decisions should be kept separate from the City's CDBG activities.

2. Oversight of administration of the Housing Trust Fund, as well as final funding recommendations to the Common Council, should be provided by a 13-member advisory board consisting of the following members, who shall serve staggered, 2-year terms:

   - Two Common Council members (appointed by the Common Council President)
   - Two members to be appointed by the Mayor
   - The City Comptroller or his/her designee
   - A non-profit developer (appointed by the Common Council President)
   - A for-profit developer (appointed by the Common Council President)
   - A representative of Continuum of Care
   - A representative of a financial institution (appointed by the Common Council President)
   - A representative of the Local Initiatives Support Corporation
   - A representative of the Metropolitan Milwaukee Fair Housing Council
   - A representative of Independence First
   - A representative of the Interfaith Conference of Greater Milwaukee

   (For advisory board members where no appointing authority is specified, the agency which the individual represents shall make the appointment.)

The board should be responsible for evaluating requests for funding from the Housing Trust Fund (after those requests have been submitted to and reviewed by the administering agency). In making funding-allocation decisions, the board should consider a report on Milwaukee's housing needs that is prepared annually by the Community Development Grants Administration Division and the Department of City Development.

3. A minimum of 25% of Housing Trust Fund dollars should be used to develop housing and provide services for people who are homeless. A minimum of 35% should be used to develop or rehabilitate rental housing. A minimum of 25% should be used to create and maintain home ownership opportunities. The remainder of the Fund (15% or less) should be set aside for "flexible" use to respond to whatever housing needs the advisory board identifies, subject to the income-eligibility requirements of items #7 and #8. In any of these categories, Housing Trust Fund dollars may be used to fund accessibility or visitability improvements or modifications. Each year, at least 2% of available Housing Trust Fund dollars or $100,000, whichever is less, should be used to fund accessibility improvements or modifications in any of the 3 funding categories (homeless, rental and home ownership).

   For all projects financed by the Housing Trust Fund, Trust Fund dollars should be used to leverage and complement other sources of financing and to close funding gaps, but should not be viewed as the primary source of funds for the project.

4. Rental housing which is supported by the Housing Trust Fund shall remain affordable for a minimum of 30 years, with a review of the affordability requirement at 15 years. The advisory board shall have discretion to remove a particular housing development from the Housing Trust Fund program at the time of the 15-year review.

5. For acquisition, new construction or rehabilitation of an owner-occupied dwelling, a Housing Trust Fund loan should be forgiven if the owner lives in the home for at least 5 years. The requirement to live in the home for at least 5 years could be imposed through a deed restriction. If the owner sells the home before the end of the 5-year period, the owner would be required to reimburse the Housing Trust Fund the entire loan amount unless the property is sold to another income-eligible household.

6. For housing for the homeless, the period of affordability should be 50 years.

7. Financial assistance from the Housing Trust Fund for acquisition or new construction of owner-occupied housing should be limited to households with incomes at or below 100% of the County Median Income (currently $67,200 for a family of 4), where "income" is as defined on the Census Bureau's Long Form. For homeowners seeking financial assistance for rehabilitation projects, household income should be limited to 65% of County Median Income (currently $43,680) for substantial work (e.g., work valued at more than $5,000) and 100% of County Median Income for more modest projects (e.g., work valued at $5,000 or less). The dollar values of these income limits will, naturally, be adjusted over time as County Median Income changes.

8. Housing Trust Fund assistance for rental housing and projects for the homeless (acquisition, new construction or rehabilitation) should be limited to projects that serve households and individuals at or below 50% of the County Median Income (currently $33,600).

9. Housing Trust Fund dollars should be available for home-buying counseling, but agencies providing counseling should be required to demonstrate that they serve low- and moderate-income clients. Also, any organization that receives Housing Trust Fund money for this purpose should be required to prove that it has the ability to assist disabled individuals needing counseling (e.g., the organization offers translation services, materials in Braille, etc.).

10. The advisory board should award extra points to an application for Housing Trust Fund assistance if the proposed project will:

- Leverage other funds (private and/or public);
- Serve the lowest-income segment of the population;
- Extend the term of affordability beyond the minimum required by the Housing Trust Fund;
- Use workers from the neighborhood and/or give priority to emerging business enterprise contractors;
- Encourage more neighborhood diversity and increase housing choices within the neighborhood;
- Use green building principles;
- Coordinate with and enhance the work of other entities in the neighborhood, such as employers, business improvement districts, schools, job training agencies or social service agencies; and/or
- Facilitate the movement of persons from institutions into the community.
- Use contractors who pay family-supporting wages.

11. The following accessibility standards shall apply to all new construction or substantial rehabilitation of housing supported by Housing Trust Fund dollars:

- Section 504 of the Rehabilitation Act of 1973.
- Fair Housing Act as Amended.
- Americans with Disabilities Act (with respect to marketing-office and common areas).
- Wisconsin Open Housing Act.
- Architectural Barriers Act.
- The design principles of any one of the following:
    - "Aging in place".
    - "Universal design".
    - Any other accessible and/or adaptable design criteria approved by the Housing Trust Fund's advisory board.

- For new housing units in one- to 3-unit structures, each ground-floor unit shall be constructed to the following “visitability” standards:
  - One zero-step entrance to the dwelling unit that will permit a visitor using a wheelchair to enter the main-level floor of the dwelling unit through a doorway entrance that has a minimum 32” clear passage opening.
  - A usable path of travel throughout the interior main-level floor of the dwelling unit that is no narrower than 36” at any point except for interior doorway openings with a minimum 32” clear passage opening.
  - A powder room (half bath) on the main-level floor that has: 1) a doorway entrance with a minimum 32” clear passage opening; 2) sufficient space to close the entrance door while the room is occupied; 3) a minimum 30” by 48” floor space clearance; 4) reinforced walls for future installation of grab bars to provide access to the toilet if necessary.
- Any of these standards (except standards imposed by federal or state law) may be waived or reduced by the Housing Trust Fund’s advisory board, upon consultation with appropriate City staff, if project site conditions are unsuitable, but any such waiver does not exempt the project from all other applicable requirements regarding accessibility and visitability.