Dedicated revenue sources

Overview

A dedicated revenue source for affordable housing provides an ongoing committed stream of revenue for affordable housing, often deposited into a housing trust fund. While the amount of funding raised by a dedicated revenue source can fluctuate from year-to-year, a dedicated source can be helpful in increasing the total funding available for affordable housing and reducing the risk associated with reliance on annual appropriations decisions.

There are many revenue streams that can be tapped to support housing affordability. Common dedicated revenue sources tend to be related to real estate development and include a percentage of real estate transfer tax or document recording fee revenues; developer fees, such as linkage fees; and demolition taxes in towns, cities and counties where teardowns are common. Other potential sources include proceeds from permit fees, lodgers’ taxes on hotel stays, interest on government accounts, taxes on legalized medical or retail marijuana, taxes or fees on luxury housing, and taxes or fees on short-term rentals through companies like Airbnb.iii

A dedicated revenue source does not guarantee program funding. Some revenue
sources are likely to dry up just when the need for affordable housing is greatest. In an economic downturn, for example, new development activity and related permit fee revenues are likely to decline. In a tight budget environment, dedicated revenue sources may also be diverted by city councils or state legislatures looking to fill budget gaps. However, to the extent that a town, city or county has determined housing affordability is a priority worth supporting, establishing a dedicated revenue source can help to mitigate the risks associated with reliance on annual appropriations decisions and provide a higher level of total funding for affordable housing programs.

This section describes key considerations for communities interested in creating a housing trust fund.

**Approach**

It is important to acknowledge that dedicating a revenue stream to affordable housing (or any other specific activity) limits the city’s ability to use those funds for another purpose. However, it may also present an opportunity to expand the total amount of public resources available to address local needs. To the extent the community agrees that housing affordability is a priority worth supporting, residents may support creation of a new tax or fee dedicated to that purpose, enlarging the total amount of funding available to support local government activity. So long as the newly raised funds are not offset by decreases in general funds appropriated for affordable housing, they will also help increase the local funding available to promote affordable housing.

A primary consideration when establishing a new dedicated revenue source for affordable housing is where the funds will come from. Questions to consider when identifying a funding source include:

1. **Are any potential revenue sources already in use for housing or other purposes? If so, can they be expanded or repurposed?**

Some towns, cities and counties choose to dedicate a portion of existing revenue for affordable housing. Others choose to establish a new fee or tax in order to expand the overall level of resources available to meet local needs. (See below for a list of potential dedicated revenue sources compiled by the Housing Trust Fund Project.)

It may be difficult to gain popular support for a new tax or fee to support affordable housing. However, diverting a portion of revenue collected under an existing fee or tax may also pose challenges. Towns, cities and counties considering this option should determine how those funds are currently used, and whether the re-allocation of any...
portion of the proceeds to affordable housing will create a revenue gap in another critical area.

Establishing a new dedicated revenue source for affordable housing generally is a long-term effort that requires strong leadership and a substantial commitment of time and energy. This process involves identifying who will pay for the new tax or fee, how much, and through which activities. Local jurisdictions may wish to find community partners who can help to lead the campaign, including those who can mobilize a strong and vocal network of supporters. It may also be helpful to identify a local elected official who will champion the cause and sponsor a local ordinance, resolution, or piece of legislation.

*Potential dedicated revenue sources*

<p>| Taxes and fees | Interest on market and government accounts | Government-owned property and repayments |</p>
<table>
<thead>
<tr>
<th>Revenue Options</th>
<th>Interest on market accounts, including:</th>
<th>Proceeds from the sale of government-owned property</th>
<th>Proceeds from the sale of government-owned property, including parking garages</th>
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<tbody>
<tr>
<td>Real estate transfer tax</td>
<td>escrow accounts</td>
<td>Income from the lease or operation of government-owned property</td>
<td>Income from development funded through CDBG or HOME funds</td>
</tr>
<tr>
<td>Document recording fees</td>
<td>Title escrow accounts</td>
<td>Repayments from government loan programs, including CDBG or HOME</td>
<td>Repayments from government loan programs, including CDBG or HOME</td>
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<tr>
<td>Developer fees, including from linkage and inclusionary zoning ordinances</td>
<td>Tenant security deposits</td>
<td>Unclaimed lottery winnings</td>
<td>Unclaimed lottery winnings</td>
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<td>Permit fees, including for development, conversions, and demolitions</td>
<td>Interest on government accounts, including:</td>
<td>Reserve funds from bond issuing agencies</td>
<td>Reserve funds from bond issuing agencies</td>
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<tr>
<td>Property taxes</td>
<td>Rainy day fund</td>
<td>Proceeds from the sale of government-owned property</td>
<td>Proceeds from the sale of government-owned property, including parking garages</td>
</tr>
<tr>
<td>Tax increment financing districts</td>
<td>Unnamed, unclaimed property fund</td>
<td>Income from the lease or operation of government-owned property</td>
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</tr>
<tr>
<td>Payments in lieu of taxes</td>
<td>Other funds</td>
<td>Income from the lease or operation of government-owned property</td>
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<td>Sales tax</td>
<td></td>
<td>Proceeds from the sale of government-owned property, including parking garages</td>
<td>Proceeds from the sale of government-owned property, including parking garages</td>
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<td>Hotel/motel tax</td>
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<td>Income from development funded through CDBG or HOME funds</td>
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<td>Restaurant surcharges on meals</td>
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<tr>
<td>Wheel taxes</td>
<td></td>
<td>Unclaimed lottery winnings</td>
<td>Unclaimed lottery winnings</td>
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</tbody>
</table>

Source: [Housing Trust Fund Project](#)

2. **What other revenue options are feasible?**
A close review of potential funding options can help identify which ones are most likely to be feasible for the community. All funding sources will not be applicable in all
towns, cities and counties. Depending on the state, local jurisdictions may be limited in the types of fees that can be assessed. For example, some states do not collect a real estate transfer tax, and cities may be required to receive state authorization before introducing a transfer tax of their own. Without a change in state enabling legislation, it will be difficult for local jurisdictions to use this potential funding source to create a dedicated revenue stream for affordable housing.

3. **Which of the feasible options is likely to have the least opposition? Which have the greatest revenue potential?**

Local circumstances will determine which approach and which funding source(s) are likely to garner the most support (or meet with the least opposition). Some practitioners suggest targeting revenue sources that are at least conceptually related to housing and/or the need for affordable housing to reduce pressure to use the funds for other purposes. Early consultation with affordable housing advocates, real estate professionals and other stakeholders can help to identify which revenue sources will attract the most support (and the least opposition), build understanding and support for the effort, and strengthen proposals for the creation of a dedicated revenue source.

The likelihood that target revenue amounts will be reached and that proceeds will remain relatively stable from year to year should be another key consideration when exploring proposed funding sources. Local officials can look at public records to estimate the revenue potential of various fees or taxes and then assess whether those estimates will be sufficient to have a meaningful impact on the community’s housing goals. While some degree of fluctuation is unavoidable, a dedicated revenue source should also provide a relatively stable and regular stream of funding from year to year. Towns, cities and counties should be mindful of the possible impact of a slowdown in the housing market or other economic event, and whether certain funding sources (or combinations of funding sources) will be less vulnerable to declines when the need for affordable housing assistance is greatest.

In addition to identifying a funding source, cities will need to determine how the funds will be administered. Many towns, cities and counties create a dedicated source of revenue in order to fund an affordable housing trust fund. In this case, administration of the funding stream will be handled by the entity responsible for managing the trust fund. Proceeds from a dedicated revenue source may also be deposited directly into other housing program accounts for use in accordance with local priorities.

**Eligibility**

When a dedicated revenue source is used to support a housing trust fund or other existing program, eligibility for funding awards will be determined by that program’s
guidelines. These guidelines should specify eligible activities (e.g., ongoing rent assistance, gap financing for new construction or rehabilitation of affordable housing, downpayment assistance for first-time homebuyers, etc.), the form in which assistance will be provided (e.g., low-interest or forgivable loan, grant, etc.) and associated affordability requirements, including the income level(s) targeted and the duration of the affordability period. Some communities also require funding recipients to provide matching funds—from another public program, philanthropic donation, or their own corporate resources—to leverage funding from the dedicated revenue source.

When designing eligibility criteria, towns, cities and counties may also wish to establish safeguards that help to ensure the dedicated revenue is used for the intended purpose. During budget shortfalls, local governments may try to use housing trust funds and other dedicated revenue sources to fill gaps in the budget. By carefully structuring eligibility requirements for fund disbursements, it may be possible to avoid this diversion of housing funds.

**Examples**

- Voters in **Aspen, CO** have approved two real estate transfer taxes totaling 1.5 percent of the purchase price, which are paid at closing for property within city limits. The smaller of the two (0.5 percent) supports programming and maintenance of the city’s opera house. The remaining tax (1.0 percent) goes to the county housing authority and is used to provide affordable housing, including rental and for-sale units. The first $100,000 of each transaction is not subject to the housing transfer tax, helping to reduce the burden on buyers of lower-cost homes. Exemptions may also be issued for limited circumstances, including transfers that involve publicly assisted properties and charitable and religious institutions. For more details, click [here](#).

- The Penny for Affordable Housing Fund in **Fairfax County, VA** provides a dedicated revenue source by setting aside a penny of the county’s real estate tax rate for affordable housing. The fund was established in 2005 and discontinued in 2009 during the Great Recession. When it was reinstated in 2010, half of the Penny Fund revenue was diverted to help balance the county budget. Funds are used to preserve and create affordable homeownership and rental housing in large and small projects, owned by both private nonprofits and for-profit organizations, and affordability requirements must remain in place for at least 30 years. Fairfax County recommends that all Penny Fund contributions be matched 3:1 with non-County funds. For more details, see [here](#).


**Related resources**

*Implementation*

- [Revenue Sources](#), Housing Trust Fund Project – Focused primarily on advocates and practitioners, this website provides guidance on how to identify a dedicated revenue source and key questions to ask when considering various sources. The site also links to comprehensive lists of local and state revenue sources.

- [Potential Dedicated Revenue Sources to Support Affordable Housing Production](#), Cornerstone Partnership (September 2015) – This table lists a variety of potential sources of revenue for affordable housing, including thumbnail sketches of how each works and is implemented and revenue generation potential.

- [Real Estate Transfer Charges](#), Lincoln Institute of Land Policy – This searchable database provides detailed information on real estate transfer taxes in each state.

1. See the Center for Community Change Housing Trust Fund Project’s “Revenue Sources” web page for more ideas [here](#).

*Dedicated revenue sources are often established as a mechanism to fund affordable housing trust funds. Click [here](#) to learn more about housing trust funds.*

**See also:**

- Linkage fees/affordable housing impact fees
- Tax increment financing
- Housing trust funds