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# San Joaquin County Housing Trust Fund

**Financial Feasibility Study**

February 2023



HR&A

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# Context

## Purpose of Study

In September 2020, the San Joaquin County Council of Governments (SJCOG) Board identified four priorities to accelerate housing production:

1. Development of a Regional Housing Trust Fund (RHTF)
2. Streamlining the Development Process
3. Planning and Coordination to Develop a Regional Project Pipeline
4. Supporting Local Jurisdictions Impacted by COVID-19.<sup>1</sup>

This Financial Feasibility Study is the second component of an SJCOG-led study to develop an implementation plan for a Regional Housing Trust Fund (HTF or Fund). The goal of this study is to identify:

1. the role of a Regional Housing Trust Fund
2. potential funding sources to capitalize and operate a Regional Housing Trust Fund; and
3. recommendations to begin securing required funding sources.

## Previous Efforts

SJCOG's vision builds on the City of Stockton's (Stockton) initial efforts to establish a local housing trust fund. In 2019, the Stockton Mayor's Task Force on Affordable and Workforce Housing identified a need for new funding sources to preserve existing affordable housing and develop new units.

In July 2020, Stockton put forward a plan to allocate funding towards a local housing trust fund. However, Stockton struggled to secure adequate sources to launch the fund. Ultimately, Stockton did not proceed but started many important conversations and initial assessments. Today, housing advocacy is being carried forward by the Reinvent South Stockton Coalition—a coalition of over 60 community-based organizations, local institutions, and corporations.<sup>2</sup>

The Regional Housing Trust Fund effort, spearheaded by SJCOG, builds on Stockton's efforts by recognizing the lack of available resources and seeking input from the diverse stakeholders engaged in advocating for more affordable housing in San Joaquin County.

<sup>1</sup> "Refining a Regional Approach to Housing 2.0," Hailey Lang et al, April 2020, <https://sjcog.legistar.com/LegislationDetail.aspx?ID=4646370&GUID=4D24614D-0629-4A38-B3E8-8B660627662F>

<sup>2</sup> "Stockton Housing Landscape Assessment," Enterprise Community Partners, 2020, [https://www.enterprisecommunity.org/sites/default/files/2021-06/RSSC\\_Enterprise-Stockton-Housing-Landscape-Assessment-final.pdf](https://www.enterprisecommunity.org/sites/default/files/2021-06/RSSC_Enterprise-Stockton-Housing-Landscape-Assessment-final.pdf)

# Introduction to Housing Trust Funds

## The Growing Need for New Affordable Housing Financial Resources

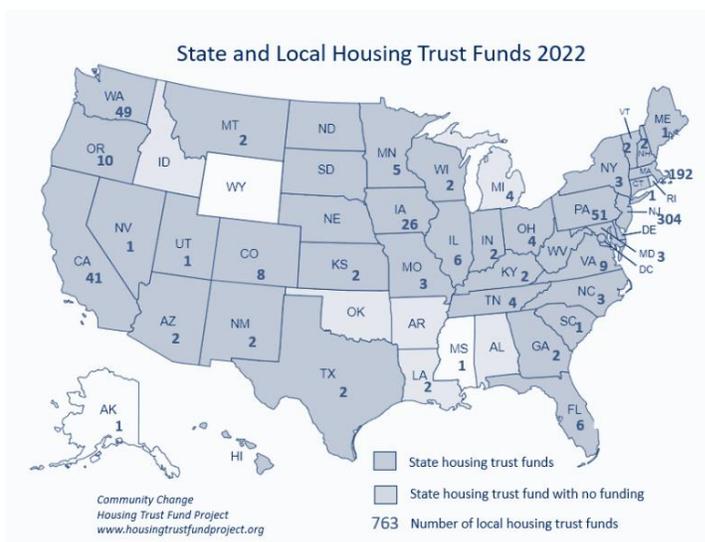
Local governments across the US are launching Housing Trust Funds to meet growing housing needs and offset uneven federal funding. Across the country, growing housing needs are driven by increasing displacement, high costs of construction, increasing homelessness, and a growing desire to address racial inequalities that have long shaped housing patterns.

Prior to the onset of the COVID-19 pandemic (and certainly during), San Joaquin County was seeing an increase in housing costs without a correlated increase in wages or overall household income. In Stockton alone, many residents saw a 29% increase in rent between 2014-2019. Housing cost burdens also reflect racial disparities. In 2019, 69% of Black renter households in San Joaquin County were cost burdened or severely cost-burdened, compared to only 45% of white renter households.<sup>3</sup>

Since 2019, the pandemic has exacerbated the housing crisis leaving many residents at risk of displacement and homelessness.<sup>4</sup> Between 2017 and 2022, the size of San Joaquin County's homeless population increased by 50%—growing to 2,319 individuals from 1,552 individuals. Strikingly, the number of unsheltered homeless individuals grew by 138% during the same time period—to 1,355 individuals from 567 individuals—evidence of a shelter system overwhelmed by new demand.<sup>5</sup>

To address this growing need, Housing Trust Funds have emerged across the nation as an effective mechanism to provide financing. In 2022, the Housing Trust Fund Project reported over 828 state, regional, and local housing trust funds across the US, as shown in Figure 1.

Figure 1. Map of State and Local Housing Trust Funds



<sup>3</sup> "Housing Needs Dashboard: Cost Burdened Renter Households by Race & Ethnicity," California Housing Partnership, 2019, <https://chpc.net/housingneeds/>

<sup>4</sup> "San Joaquin County Housing Policy Toolkit, April 2022, <https://www.sjcog.org/DocumentCenter/View/6880/SJCOG-Enterprise-Housing-Policy-Toolkit?bidId=>

<sup>5</sup> "Point in Time Count Trends and Analysis—Homelessness Disparity in San Joaquin County," June 9, 2022, <http://www.sanjoaquinoc.org/wp-content/uploads/2022/06/06-09-2022-PIT-Trends-and-Analysis-2022.pdf>

## The Role of Housing Trust Funds

Despite their growing popularity, HTFs are not intended to be a primary funding source for affordable housing. In fact, total funding for the 828 housing trust funds across the country is a relatively modest \$3 billion.<sup>6</sup> The annual funding varies widely, particularly at the county level, from \$100,000 to \$24 million.<sup>7</sup> Montgomery County, MD, for example, collected \$21 million through developer impact fees for its HTF in 2021, while other counties have not collected any funding since 2018. Regardless of the annual funding available, each of the county-level housing trust funds across the country is positioned to leverage multiple financing sources.

Rather than offering a large source of new funding, HTFs instead offer “gap financing”—funding to fill the void between a senior lender, developer equity, tax credits, and other sources of funding. Gap financing offers flexible terms that can be leveraged to obtain funding from other sources.

As shown in Figure 2, HTFs typically make up a small, but essential percentage of a project’s total capital stack, which can make the difference between a project moving forward or remaining infeasible. As a result, relatively small investments can lead to rapid production of affordable units.

In addition to being a project’s final source of funds, HTFs are also one of the most flexible sources of funding a developer can use to advance projects. Unlike highly-restrictive federal program funds, HTFs can be

structured to suit local conditions. The flexibility of HTFs results in a wide range of investment approaches. The most common types of investments include:

1. New Construction
2. Preservation of Existing Housing
3. Land Acquisition and Pre-Development Costs
4. Homeless Shelters and Permanent Supportive Housing
5. Homeownership Assistance

The allocation of funds among these and other uses is determined by the Fund’s Board of Directors and administrators—giving the Fund flexibility to reallocate funds as needs and conditions change. For example, an HTF may set a goal of prioritizing Permanent Supportive Housing (PSH) but still reserve the flexibility to fund other types of projects that might be proposed. Nonetheless, it is important that an HTF select initial priority investment areas to communicate goals with potential recipients and to attract contributors.

**In order to be rapidly deployed, Housing Trust Funds cannot be overly prescriptive but should respond to existing demand. If funds contain too many restrictions, they often struggle to find viable projects to invest in.**

<sup>6</sup> Center for Community Change, *Summary of Housing Trust Funds, 2022*.

<sup>7</sup> Center for Community Change, *Housing Trust Fund Survey Report, 2016*.

Figure 2. Sample Capital Stack for an Affordable Housing Development

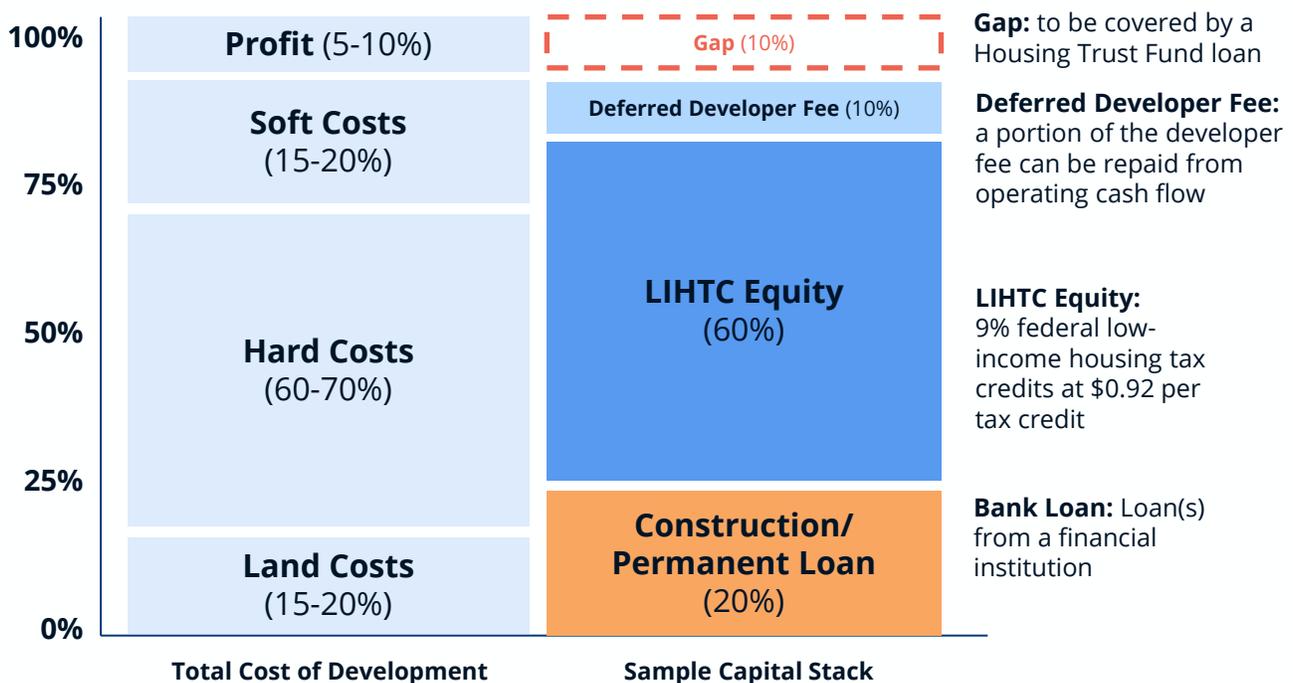
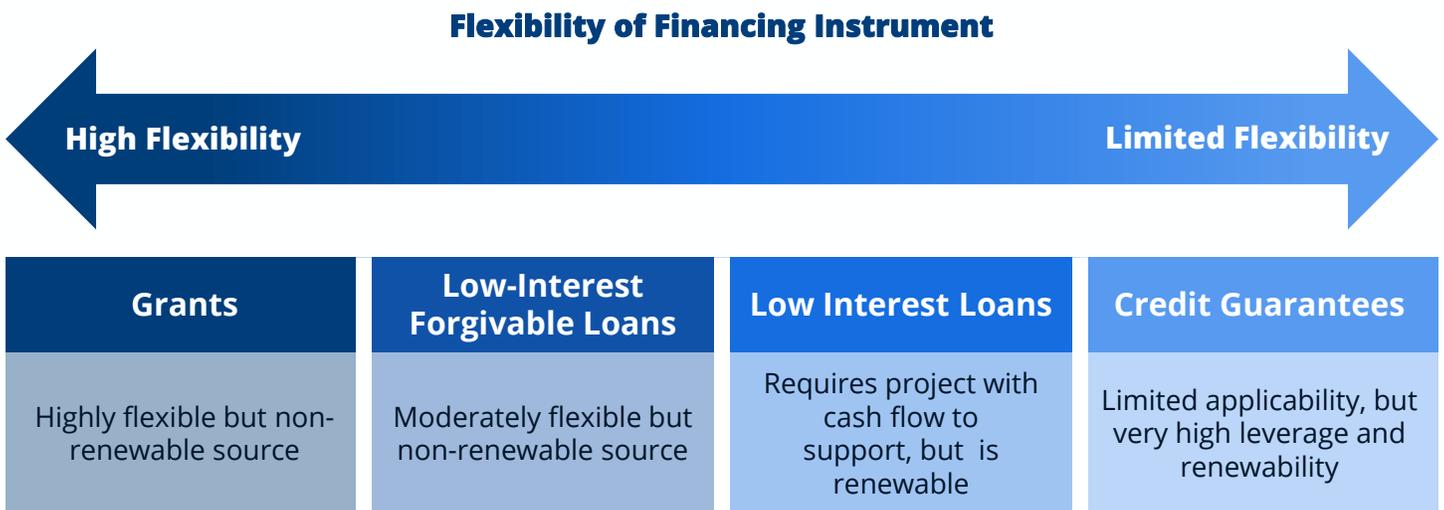


Figure 3. Range of Affordable Housing Development Financing Uses



Housing Trust Funds use a variety of financing instruments to support affordable housing production. As Figure 3 indicates, financing instruments offer tradeoffs between flexibility and long-term financial sustainability. Housing Trust Funds must balance these tradeoffs to ensure that they can cover administrative costs and meet impact goals, while also offering a financing product that is sufficiently flexible to attract developers.

There are four main types of financing instruments that offer different benefits to Housing Trust Funds:

**Grants:** Grant funding is a one-time investment that does not require repayment or carry an interest rate, which creates the greatest flexibility for Housing Trust Funds. Grants are highly-sought after by developers and coveted as the most flexible funding source. However, grants do not allow Fund managers to cover their administrative costs or compensate them for any project-related risks. While grants allow recipients to leverage other funding, it does not allow the Housing Trust Fund to recycle its investment and requires the highest share of public subsidy of all four options. Grants are often necessary when financing permanent supportive housing or deeply affordable projects.

**Low-Interest Forgivable Loans:** Low-interest forgivable loans offer borrowers below market interest rates and have an option to be forgiven. This instrument is more financially sustainable for a Housing Trust Fund than grant funding because recipients pay an interest rate that often helps to cover administrative costs. Yet, given that the loan can be forgiven, it is more difficult to recycle the funding to other project recipients. Many forgivable loans are also “cash-flow contingent” which means that the interest payments depend on the project producing enough cash

flow to pay the interest. If they are unable to meet the full payment obligation, the interest does not accrue. As a result, this instrument is slightly less flexible than a grant but still highly desirable to recipients. Low-interest forgivable loans are useful for deeply affordable to low-income projects, especially in volatile markets.

**Low-Interest Loans:** Low-Interest loans offer below market interest rates but must be repaid over a specific loan term. The interest rate and repayment requirement offer a more financially sustainable instrument to the HTF where administrative costs can be paid and loan principal can be recycled. Yet, the greater sustainability comes with the tradeoff that fewer affordable housing projects can support these terms in addition to project debt financing, often referred to as senior financing which must be repaid first. Furthermore, the interest rate may not be sufficient to cover all fund costs which often comes at the cost of shorter term or shallower affordability covenants. Low-interest loans are feasible with low to moderate income housing projects.

**Credit Guarantees:** Credit guarantees offer other lenders a payment guarantee using the backing of the Housing Trust Fund commitment that in turn provides developers better terms on other portions of the capital stack. The financial sustainability for the Housing Trust Fund is high because their payment liability is restricted to defaults. Yet, the projects that can be supported are more limited because they must be able to support traditional debt with only limited benefit from the Housing Trust Fund support. Credit guarantees are not as beneficial to developers as direct funding but do offer a more sustainable source of funding that can be leveraged to increase private financing.

# Housing Trust Funds in California

## Increasing Available Funding

As housing affordability became a primary political and funding priority in the State of California (State), new funding sources were identified to boost production and preservation.

- Proposition 1, passed in 2018, allocated \$300 million to the Local Housing Trust Fund Matching Grant program and \$1.5 billion to the Multifamily Housing program, both administered by the California Department of Housing and Community Development (HCD).
- The State’s FY 2020-21 budget allocated \$550 million to Project Homekey- to invest in construction and rehabilitation of permanent supportive housing. The program was largely funded by federal COVID-19 relief funds. The 2021-22 budget expanded Homekey, allocating an additional \$1.4 billion to the fund.
- In 2018, California voters approved Proposition 2, which allowed the State to use Mental Health Services Act (MHSA) dollars to finance a \$2 billion revenue bond for permanent supportive housing. The resulting program, No Place Like Home, allows counties to directly apply for permanent supportive housing (PSH) funding.
- Launched in 2015, the Affordable Housing and Sustainable Communities (AHSC) program, allocates the State’s Cap-and-Trade dollars to affordable housing projects. As of 2022, the program had awarded \$3.6 million in total funds.

## HTFs in California

California’s Local Housing Trust Fund Matching Grant program has spurred the growth of HTFs across the state. While local governments have a long history of managing housing trust funds, new funds are increasingly regional. As of 2022, there were 31 municipal HTFs and 14 regional HTFs throughout the State, with several others in planning stages.<sup>8</sup> As Figure 4 demonstrates, Regional Housing Trust Funds often distribute less than \$10 million annually. Examining both well-established and newly-formed HTFs can provide lessons for San Joaquin County’s HTF implementation.

Figure 4. Sample of RHTF Funding Allocations

	Population	Annual Funding	Annual \$ Per Capita
Silicon Valley CDFI	1,940,000	\$8 million	\$4.12
San Gabriel COG JPA	2,000,000	\$2 million	\$1.00
San Luis Obispo County	282,000	\$3 million	\$10.63
San Mateo County	765,000	\$7.5 million	\$9.80
Ventura County	845,000	\$8 million	\$9.46
Orange County JPA	3,170,000	\$11 million	\$3.47

<sup>8</sup> “Housing Trust Funds in the United States 2022,” Housing Trust Fund Project, <https://housingtrustfundproject.org/>

## CASE STUDY

# Orange County Housing Finance Trust

### Formation

The Orange County Housing Financing Trust (OCHFT) was formally established in 2018. The organization's creation was spearheaded by a municipal leaders who wanted to bring cities together to address affordable housing. An 18-month outreach effort led to the creation of a Joint Powers Authority (JPA) that included 26 member cities and the County itself.

### Governance & Management

OCHFT is governed by a 9-member Board of Directors. The Board composition consists of four County and five City representatives including:

- 2 members of the Orange County Board of Supervisors;
- 2 countywide elected officials selected by the Board of Supervisors;
- 1 representative from each the city member of the OCHFT with the largest population in the County's North, Central, and South Region Service Planning Areas; and
- 2 city council members selected from member cities not already represented by other Director categories.

OCHFT does not have any employees and is fully managed by part-time consultants. In addition, OCHFT entered into a Memorandum of Understanding (MOU) with Orange County, allowing County staff to provide services to the Fund on an as needed basis. This model allows OCHFT to minimize its ongoing administrative costs.<sup>9</sup>

### Funding Sources

In its first year, 2020, OCHFT was funded with \$9.3 million, made up of the following sources:

County General Fund	\$3,215,360
County Mental Health Services Act (MHSA)	\$1,000,000
State General Fund	\$950,000
State Local Housing Trust Fund Matching Grant	\$4,215,360
<b>TOTAL</b>	<b>\$9,380,720</b>

In 2021, OCHFT reached a 5-year agreement with Orange County to allocate \$20.5 million in MHSA funds and \$5 million in County General Funds over five years. OCHFT uses these County commitments to secure a State matching grant—for a total annual fund value of \$10 million. Although OCHFT continues to seek appropriations from the State General Fund, in FY 2020-21 it did not receive any, despite a strong pipeline of proposed projects.

### Programmatic Focus & Impact

Orange County's bylaws give administrators the flexibility to invest in a variety of housing projects. However, the County set a specific goal of funding 2,700 permanent supportive housing units by 2025. As of November 2022, OCHFT has funded 1,306 PSH units and 2,634 total units.

According to the Fund Manager, OCHFT set the goal of spending funding equally across the County's three service planning areas. However, as of 2022, the Trust rarely received applications for projects in the Southern planning areas—the County's wealthiest. To incentivize development, OCHFT is considering reserving all of its funding for projects in the Southern area for the next two years in order to encourage developers to identify potential projects.

<sup>9</sup> "OCHFT: Five-Year Strategic Plan," OCHFT, September 2021, <https://static1.squarespace.com/static/5cf818af0d93600001558cee/t/62bf1df91dd4e4d5c5b2b927d/1656692218943/OCHFT+Strategic+Plan+2021+Update.pdf>

Figure 5. OCHFT Veterans Housing Project in Santa Ana, CA



## CASE STUDY

# Sacramento Housing and Redevelopment Agency

### Formation

The Sacramento Housing and Redevelopment Agency (SHRA) was formally established as a Joint Powers Authority in 1982. The Agency serves as the fiscal agent and provides the exclusive staffing for the Housing Authorities of the City and County of Sacramento. In 1990, the County of Sacramento adopted an ordinance to establish a Housing Trust Fund—to be administered by SHRA.

### Governance & Management

SHRA is governed by an 11-member Commission. The Commission composition consists of six County and five City representatives including:

- 1 public housing resident from the City, and
- 1 public housing resident from the County.

The Housing Trust Fund is managed by SHRA's Development Department, which has a total staff of 25 full-time equivalent employees (FTEs) who oversee all of SHRA's real estate development programs—not only the Trust Fund.<sup>10</sup>

### Funding Sources

In 1990, the County of Sacramento adopted ordinances to impose a one-time "linkage" fee on commercial developers to mitigate impacts on affordable housing. The County's Housing Trust Fund was established with the explicit purpose of supplying workforce housing to low-income, working-class families, enabling them to reside in the same jurisdiction as the buildings in which they work. The Housing Trust Fund does not receive County General Funds.

Since 1991, the County Trust Fund has collected \$48 million in total income—averaging roughly nearly \$1.6 million per year.<sup>11</sup> However, the Fund's revenues are highly cyclical—rising and dropping with the real estate market. The County's fee structure was recently updated in 2022, after remaining the same for the previous 30 years.

SHRA also received State Local Housing Trust Fund Matching Grants to bolster their internal funds in 2020 and 2022.

### Programmatic Focus & Impact

As a condition of the County development fee, projects funded by the Housing Trust Fund must be occupied by persons in the labor force who earn up to 50% of the County's median income.

As of December 2021, the County Fund had produced nearly 3,000 total units.<sup>11</sup>

<sup>10</sup> "2022 SHRA Final Budget," Sacramento Housing and Redevelopment Agency, 2021, <https://www.shra.org/wp-content/uploads/2022/07/SHRA-2022-Final-Budget.pdf>.

<sup>11</sup> "Sacramento County Housing Trust Fund Annual Report for January 1, 2021 to December 31, 2021," Sacramento Housing and Redevelopment Agency, May 2022, <https://www.shra.org/wp-content/uploads/2022/06/County-Housing-Trust-Fund-Report-2021.pdf>

Figure 6. Mather Transitional Housing in Rancho Cordova, CA



Figure 7. Norden Terrace Apartments in North Highlands, CA



## CASE STUDY

# San Gabriel Valley Regional Housing Trust

### Formation

The San Gabriel Valley Regional Housing Trust (SGVRHT) was formally established as a Joint Powers Authority (JPA) in February 2020. The JPA is made of up 21 member cities—notably, the County of Los Angeles is not a member.

### Governance & Management

SGVRHT is governed by a 9-member Board of Directors, comprised of:

- 7 representatives from member cities, and
- 2 housing and homelessness experts.

The members are appointed by the Governing Board of the San Gabriel Valley Council of Governments.<sup>12</sup>

As of 2020, SGVRHT was managed by three full-time staff members including an Executive Director, Director of Finance, and a Program Analyst.

### Funding Sources

In its first year, FY 2020-21, SGVRHT was funded with \$1.6 million, made up of the following sources:

Member Fees	\$185,000
County and Local Special Projects Funds	\$375,000
PLHA Allocations from Member Cities	\$197,000
State Budget Earmark (2020)	\$925,000
<b>TOTAL</b>	<b>\$1,682,000</b>

A State budget earmark made up the majority of SGVRHT's capital budget.<sup>13</sup>

SGVRHT primarily uses Public Local Housing Allocation Funds (PLHA) contributed by member cities to serve as matching funds for the State Local Housing Trust Fund Matching Grant Program. SGVRHT was awarded matching grants in 2020, 2021, and 2022.

In FY 2021-22, SGVRHT received an additional State budget earmark for a **\$20 million** to further capitalize its fund—a significant increase from the \$925K State appropriation it received in its first year of operations.

In 2023, SGVRHT plans to begin studying the feasibility of bond financing as a potential long-term funding source.<sup>14</sup>

### Programmatic Focus & Impact

SGVRHT operates four primary programs:

- **Pipeline Funding:** permanent gap financing for proposed affordable housing developments.
- **Homeless Housing Pilot Programs:** funding homeless housing units (including tiny homes and motel conversions) at a maximum cost of \$25,000 per unit.
- **Revolving Loan Fund:** a 36-month loan that can be used for site acquisition, predevelopment expenses, community engagement, and construction loans.<sup>15</sup>

As of December 2022, SGVRHT had funded 556 total permanent affordable housing units and 105 homelessness housing units.<sup>16</sup>

<sup>12</sup> "How we got our start," San Gabriel Valley Regional Housing Trust, <https://www.sgvrht.org/about>.

<sup>13</sup> "FY 2020-2021 Budget Amendment," San Gabriel Regional Housing Trust, April 7, 2021, [https://www.sgvrht.org/files/ugd/f815d4\\_231da0d4e0fa4920b54c4aa70a34847d.pdf](https://www.sgvrht.org/files/ugd/f815d4_231da0d4e0fa4920b54c4aa70a34847d.pdf)

<sup>14</sup> "Funding Priorities for \$30 million State Earmark," San Gabriel Valley Regional Housing Trust, November 17, 2022, [https://www.sgvrht.org/files/ugd/f815d4\\_98069e9a3eca451ab06e8ebef38eb111.pdf](https://www.sgvrht.org/files/ugd/f815d4_98069e9a3eca451ab06e8ebef38eb111.pdf)

<sup>15</sup> "Revolving Loan Fund Guidelines," San Gabriel Valley Regional Housing Trust, June 28, 2022, [https://www.sgvrht.org/files/ugd/f815d4\\_1eafc8ca9197486085bd465c2d447970.pdf](https://www.sgvrht.org/files/ugd/f815d4_1eafc8ca9197486085bd465c2d447970.pdf)

<sup>16</sup> "San Gabriel Valley Project Pipeline Update," San Gabriel Valley Regional Housing Trust, December 13, 2022, [https://www.sgvrht.org/files/ugd/f815d4\\_e89a7225cf27479e8df1e67e2b32d557.pdf](https://www.sgvrht.org/files/ugd/f815d4_e89a7225cf27479e8df1e67e2b32d557.pdf)

Figure 8. Mariposa Housing in Alhambra, CA



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## CASE STUDY

# Bay Area Housing Financing Authority

### Formation

In 2019, the California State Legislature established the State's first regional housing financing body, the Bay Area Housing Financing Authority (BAHFA). BAHFA was created to develop comprehensive regional strategies to tackle the housing crisis across the Bay Area's nine counties and 101 cities. BAHFA's enabling legislation (AB 1487) allows the authority to create ongoing revenue by imposing a fee of up to \$10 on development projects in the nine-county region, but only after voters pass a parcel tax or bond measure to fund the authority.<sup>17</sup>

### Governance & Management

BAHFA is directly governed by the Board of Directors of the Metropolitan Transportation Commission (MTC). However, BAHFA policy and programs must also receive approval from the Association of Bay Area Governments (ABAG) Executive Board.

BAHFA is also governed by:

- a 7-member Oversight Committee whose membership consists of four County and three City representatives;
- a 9-member Advisory Committee made up of experts in housing finance and development, tenant protection, and housing preservation.

As of 2022, BAHFA was managed by six full-time staff members, including an Executive Director, three Program Principals, one Analyst, and one Executive Assistant.<sup>18</sup>

### Funding Sources

BAHFA remains in an early stage of formation and is not yet operating like a traditional housing trust fund. In 2021, BAHFA was awarded a \$20 million State budget earmark to hire staff and launch initial pilot programs.

BAHFA is also using the grant to prepare a General Obligation bond measure for the November 2024 ballot. The \$10 billion bond measure would require a two-thirds majority approval by voters in all nine counties.

If passed, 80% of funds raised would return to member counties, and 20% would be retained by BAHFA.

### Programmatic Focus & Impact

BAHFA has not yet begun to provide gap financing to affordable housing projects. However, if BAHFA can secure a long-term funding source, AB 1487 requires BAHFA revenues to be strictly allocated, as follows:

- 52% Rental Housing Production
- 15% Housing Preservation
- 5% Tenant Protection

The remaining funding could be used flexibly. Within the Housing Production requirement there is flexibility to address a variety of affordability challenges. The legislation states that funded projects must be "affordable to lower income households for at least 55 years, including, but not limited to, housing serving specific populations such as veterans, seniors, people with disabilities, current or former foster youth, victims of abuse, and people experiencing or at risk of homelessness."<sup>19</sup>

<sup>17</sup> "MTC delays \$10B Bay Area housing bond measure," *Marin Independent Journal*, May 28, 2020, <https://www.marinij.com/2020/05/28/mtc-delays-10b-bay-area-housing-bond-measure/>

<sup>18</sup> "BAHFA Fiscal Year 2022-2023 Budget," *Bay Area Housing Finance Authority Oversight Commission*, June 9, 2022, <https://mtc.legistar.com/LegislationDetail.aspx?ID=5674763&GUID=4A998736-06A2-40C1-B205-71846E990BB3>

<sup>19</sup> "Assembly Bill No. 1487," *California Legislative Information*, October 8, 2019, [https://leginfo.ca.gov/faces/billTextClient.xhtml?bill\\_id=201920200AB1487](https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB1487)

# Funding Sources

## Developing a Sustainable Funding Strategy

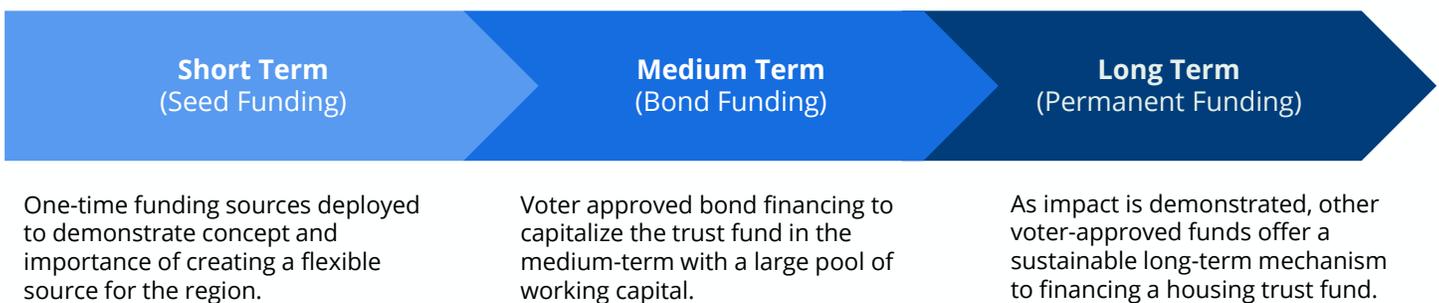
Establishing a Regional Housing Trust Fund will require both initial seed funding and a long-term, sustainable funding source, as illustrated in Figure 9.

- **Short-Term** funding sources are needed to launch the fund and establish a proof of concept. They are often made up of one-time appropriations from State, local, or philanthropic sources.
- **Medium-Term** funding sources should seek to build on initial wins by capitalizing the Fund with a larger pool of working capital.
- **Long-Term** funding sources provide sustainable, dedicated funding sources to continue financing the Fund in perpetuity.

While many newly established Trust Funds have successfully seeded funds, very few have established long-term permanent funding sources that guarantee the Fund's long-term viability.

For example, all four of the previous Case Studies were able to establish short-term seed funds; however, only one—County of Sacramento—was able to establish a long-term permanent funding source. Unfortunately, the permanent funding sources that they do have—the commercial development “linkage” fees—fluctuate significantly with economic conditions, hindering the Fund's long-term impact.

Figure 9. Funding Source Strategy Over Time



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# Short-Term Funding Sources

## LOCAL

### Regional Early Action Planning Grants 2.0

**Priority:** High

**Recurring or One-Time?** One-Time

Regional Early Action Planning (REAP) is a State of California funded grant program for strategic investments in creating a more sustainable, resilient, and inclusive future. Most of the funding goes to Metropolitan Planning Organizations, like SJCOG, and can include investments in affordable housing. Grant funding is intended to help governments facilitate local housing production that will assist them in meeting their Regional Housing Needs Allocation (RHNA) requirements.

In 2019-20 a total of \$2.4 million in REAP grant funds were allocated to SJCOG for regional and local housing planning activities which must be spent by December 2023. Funds can be used for technical assistance, establishing housing trust funds, RHNA/Housing Element planning, infrastructure planning, feasibility studies, staffing and consulting needs, and other uses. In 2020, the SJCOG Board adopted Regional Housing Priorities to facilitate housing production including establishing a Housing Trust Fund. SJCOG has recommended \$1.0 million in funding to support initial operations for the Housing Trust Fund from the pending REAP 2.0.

### CRA Funds

**Priority:** Low

**Recurring or One-Time?** One-Time

The Community Reinvestment Act (CRA) requires financial institutions to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods. Through CRA investments, banks are incentivized to work with community partners to demonstrate impactful investments in their communities.

One-time support and funding can be secured by way of sponsorships, grants, and donations from local banking institutions. Banks that regularly work with partners on the lending side can recommend consideration for larger philanthropic giving opportunities in alignment with their grantmaking. However, in San Joaquin County, short-term funding from CRA dollars may be limited due to the limited number of local community development banks, Community Development Finance Institutions, and affiliates that are active.

### HTF Member Fees

**Priority:** Low

**Recurring or One-Time?** Recurring

Several Housing Trust Funds require member cities to make annual contributions to participate in the fund. These affiliate member fees support the general operational and administrative expenses of the trust fund. These contributions can include an annual administrative fee and affiliate membership fee. Often these fees are weighted by the population in the member's jurisdiction. For example, in San Gabriel County annual member fees are \$2,000 for cities with populations of up to 30,000 and \$5,000 for cities with populations of 100,000 or more. Annual administrative fees are even higher, ranging from \$10,000 to \$25,000 depending on a city's population.

In San Joaquin County, member fees might be a useful source, particularly for administrative expenses, once the Housing Trust Fund has established a proven track record.

### Permanent Local Housing Allocation Funds

**Priority:** High

**Recurring or One-Time?** Recurring

In 2017, the Building Homes and Jobs Trust Fund established the Permanent Local Housing Allocation (PLHA) to provide ongoing funding for affordable housing within communities. There are two types of assistance under PLHA: 1.) Formula grants to entitlement and non-entitlement jurisdictions based on the formula prescribed under federal law for Community Development Block Grants, and 2.) Competitive grants to non-entitlement jurisdictions. San Joaquin County is classified as an entitlement jurisdiction and thus qualifies for a formula-based allocation. For its latest five-year allocation, San Joaquin County secured \$7.8 million of entitlement funding.<sup>20</sup> PLHA is a viable ongoing funding source for a housing trust fund. Local PLHA recipients, including both counties and cities, could elect to contribute their PLHA funds to the Housing Trust Fund. In addition, PLHA funds can also be used as matching funds for the Local Housing Trust Fund Matching Grant Program.

<sup>20</sup> "2022 Permanent Local Housing Allocation Program Entitlement and Non-Entitlement Local Government Formula Component - Notice of Funding Availability," State of California Department of Housing and Community Development, August 17, 2022, <https://www.hcd.ca.gov/sites/default/files/2022-08/2022-PLHA-Formula-Component-NOFA.pdf>

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# Short-Term Funding Sources

## STATE

### Local Housing Trust Fund Matching Grant Program

**Priority?** High

**Recurring or One-Time?** One-Time

The Local Housing Trust Fund (LHTF) is an active State program administered by the California Department of Housing and Community Development. LHTF provides matching grants to local housing trust funds that are funded by private or public contributions. Local housing trust funds use LHTF allocations to provide construction loans and permanent financing loans for construction or rehabilitation of affordable rental housing projects, emergency shelters, permanent supportive or transitional housing, and affordable homeownership projects.

Applicants can include public entities, local jurisdictions, and nonprofits. LHTF applications require identifying specific projects that will receive the financing and meeting threshold requirements for affordability and readiness. LHTF also requires a one-to-one match of funds and specifies that the matching funds cannot already be dedicated to affordable housing. Land can count towards an applicant's matching contribution. In addition to project financing, applicants receive a five percent administrative fee. The maximum award amount is \$5 million per application. The LHTF program is slated to sunset in 2024; additional coordination with HCD is needed to determine the program's outlook beyond 2024.

### State Budget Appropriations

**Priority?** High

**Recurring or One-Time?** One-Time

Many existing Housing Trust Funds have received one-time State appropriations, or earmarks, to serve as start-up funds. In most cases, these State appropriations were directly requested and secured by a State legislator representing the region.

- In 2021, the Bay Area Housing Financing Authority was awarded a \$20 million State earmark to hire staff and launch initial pilot programs.
- In 2021, the San Gabriel Valley Regional Housing Trust received an initial State earmark for \$925,000 to establish the Trust, and in 2022 SGVRHT received an additional \$20 million to capitalize the fund.
- In 2020, Orange County Housing Trust receive an initial \$950,000 in State appropriations to fund initial start up costs. However, despite additional requests, OCHT has not been successful in securing additional State general funds.

The availability of State appropriations is highly dependent on the State's fiscal condition. For example, managers of Orange County's Trust mentioned they do not anticipate securing additional State funding in the near-term, as the State forecasts large budget deficits in the next several years.

# Medium-Term Funding Sources

## LOCAL

### Revenue Bond Measure

**Priority?** Low

**Recurring or One-Time?** Recurring

Public enterprise revenue bonds raise funds for projects that have a public benefit and ongoing revenue streams, including affordable housing projects. Revenue bonds can be used to issue loans for one or more housing projects. Investors are repaid, with interest, from the revenues of the project funded by the bond's proceeds. Revenue bonds can be issued without voter approval but require significant oversight and staffing.

Revenue bonds are unlikely to be a useful source of medium-term funding for the Housing Trust Fund because they are attached individual revenue producing assets rather than a pool of funding like at HTF. Although, there may be opportunities in the future to finance individual projects once the HTF is operational.

### General Obligation Bond Measure

**Priority?** Medium

**Recurring or One-Time?** One-Time

General Obligation (GO) bonds are a flexible source of government-issued debt, which is repaid from State or local General Funds or a dedicated tax. Bonds can also be repaid by a special dedicated tax, temporary surcharge, local General Fund payment, or another existing funding source. In other words, a GO bond is not backed by a specific asset but rather by the issuer's "full faith and credit." GO bonds are tax exempt, which creates a financing discount that can be passed on to affordable housing borrowers.

Many jurisdictions limit the amount of outstanding GO bonds, which can create competing priorities and a need to delay issuance while obligations are satisfied. Obtaining GO bond issuance authority requires an election where at least two-thirds of voters register approval. This can be a protracted and uncertain process given the politics of voter preferences and competing needs for bonds by other local agencies. GO bonds are useful for a one-time or periodic source of funds (depending on the tranches of bond issuances), reserved for relatively large sums of working capital.

San Joaquin County does not currently have any GO bond obligations but other counties across the State have successfully campaigned for large bonds related to affordable housing that offer a precedent for funding a Housing Trust Fund in San Joaquin County.

Figure 10. Comparison of GO Bonds and Revenue Bonds

	GO Bonds	Revenue Bonds
<b>Backing</b>	Full faith and credit, taxing authority of the issuer, legislative appropriation	Revenues produced by the use of the facility or project
<b>Issuers</b>	States, counties, cities, towns	Any authorized political entity that generates revenue
<b>Projects Supported</b>	Infrastructure projects that are "free" to the public	"Fee for use" projects
<b>Statutory Limitations</b>	Constitutional limits, debt limits, tax limits	Does not apply
<b>Voter Approval</b>	Two-thirds majority	Does not apply

## GO Bonds and Housing

Since 1988, \$9 billion of GO Bonds have been issued for housing related investments with more than \$6 billion approved since 2006. Some examples of successful bond measures include:

- Alameda County, \$850 million, 2022
- Los Angeles County, \$276 million, 2021
- Santa Clara County, \$950 million, 2016
- San Francisco, \$310 million, 2015

Source: LAO Summary of GO Bonds – Election Results 1986 – Present, 2022

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# Long-Term Funding Sources

## LOCAL

### County General Funds

**Priority?** High

**Recurring or One-Time?** Recurring

Counties in California are responsible for a range of services including health care, social safety nets, and the justice system. Much of the funding for these services is closely tied to state programs but there is a limited amount of discretionary dollars dedicated to local priorities through the County's General Fund.<sup>21</sup>

The County of San Joaquin recently approved the 2022-23 budget totaling \$2.2 billion.<sup>22</sup> The County's total General Fund budget was \$1.1 billion which is largely comprised of departmental appropriations that do not include discretionary dollars. The projected budget includes approximately \$341 million in sales and property tax collections that are more discretionary. In the last several years, the County has made several investments in deeply affordable housing for the unhoused. There may be an opportunity to allocate a portion of the General Fund to the Housing Trust Fund, particularly if it aligns with countywide priorities.

### County Mental Health Services Act Funds

**Priority?** High

**Recurring or One-Time?** Recurring

The Mental Health Services Act (MHSA) was passed by California voters in 2004 and is funded by a one percent income tax on personal income in excess of \$1 million per year. MHSA funds are distributed directly to county governments and may be utilized for the development of permanent supportive rental housing units for individuals who are diagnosed with serious mental illness and are homeless or at risk of being homeless.<sup>23</sup> In addition, MHSA funds that are designated to a housing trust fund can be used as matching funds to secure a Local Housing Trust Fund Matching Grant. Thus, although the MHSA funds must be devoted to permanent supporting housing projects—the additional State LHTF funds they are used to secure could be used for a wider variety of housing projects.

According to San Joaquin County Behavioral Health Services Three-Year Program and Expenditure Plan, the County anticipated receiving \$57 million in total new MHSA for FY 2022-23 and allocated \$15.5 million to project based housing—the same types of housing projects that could be funded through a Housing Trust.<sup>24</sup>

### Parcel Tax

**Priority?** Low

**Recurring or One-Time?** Recurring

A parcel tax is a non-value-based tax on real property, generally in the form of a flat per-parcel assessment or a fee based on other property characteristics, such as land area, number of units, or land use. Parcel taxes are typically used to finance local government programs or facilities and are frequently used as a local funding source by school districts.

In general, parcel taxes are considered special purpose taxes and would require two-thirds voter approval. However, in 2021, the California Supreme Court found that if a special tax is placed on the ballot by a citizen's initiative it can be passed by a simple majority. As of 2022, there were no cities in San Joaquin County levying parcel taxes.

<sup>21</sup> "Understanding the Basics Of County and City Revenues" Institute for Local Government, 2013  
<https://www.hpca.gov/DocumentCenter/View/4121/Understanding-the-Basics-of-County-and-City-Revenues?bidId=>

<sup>22</sup> "2022-2023 Proposed Budget" County of San Joaquin, June 7, 2022  
<https://www.sjgov.org/docs/default-source/county-administrator-documents/county-budget/2022-2023/2022-2023-proposed-budget.pdf>

<sup>23</sup> "Fact Sheet: How Can MHSA Be Used to Support Homeless Individuals?" State of California Department of Health Care Services, March 23, 2020,  
[https://www.dhcs.ca.gov/Documents/CSD\\_KS/MHSA%20Main%20Page/FACTSHEET-MHSA-HOMELESSNESS.pdf](https://www.dhcs.ca.gov/Documents/CSD_KS/MHSA%20Main%20Page/FACTSHEET-MHSA-HOMELESSNESS.pdf)

<sup>24</sup> "Annual Update to the 2020-23 Three-Year Program and Expenditure Plan," San Joaquin County Behavioral Health Services, June 21, 2022,  
<https://www.sjcbhs.org/MHSA/Documents/MHSA%202022-23%20Annual%20Update%20FULL%20DRAFT%20for%2030%20Day%20Comment%20Period.pdf>

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# Long-Term Funding Sources

## LOCAL

### Development Impact Fee

**Priority?** Low

**Recurring or One-Time?** Recurring

Development impact fees are charges on new development projects for the purpose of defraying all or a portion of the cost of public facilities related to the development project. Fees are assessed on a per unit or per square foot basis and can be used to fund local affordable housing. Development impact fees do not require voter approval but do require a “nexus study” to demonstrate that the fees are reasonable, pursuant to the State’s Mitigation Fee Act.

Both San Joaquin County and its municipalities already levy a variety of development impact fees for public infrastructure purposes—it is not clear if any could be used to finance affordable housing. As the Sacramento Housing and Redevelopment Agency case demonstrates, development impact fees can be unreliable sources of funding, as they are closely tied to real estate market cycles. Furthermore, new impact fees are unlikely to be popular with the local development community already facing high construction costs.

### Sales Tax

**Priority?** Medium

**Recurring or One-Time?** Recurring

The statewide tax rate is 7.25%, and local jurisdictions can add district taxes that increase the tax owed by the seller. Across the State those tax rates range from 0.10% to 1.00%. Jurisdictions may increase their district tax rate up to 1.0% or enact an additional Transaction and Use Tax that exceeds 1.0%. Sales tax ballot measures only require a simple majority to pass if the proceeds are used for general governmental purposes but restricting the use of funds to a special purpose (like affordable housing) requires a two-thirds voter threshold, unless the tax is placed on the ballot by a citizen’s initiative. Special sales tax measures are an increasingly popular approach to funding affordable housing in California, with 13 measures on the ballot in 2022.<sup>25</sup>

In San Joaquin County, there is a 0.25% local sales tax rate that provides a large share of the general purpose revenue for the County each year. There is potential to increase the sales tax rate with a voter ballot measure or to investigate allocating a portion of the existing sales tax in future years directly to affordable housing.

### Real Estate Transfer Tax

**Priority?** Medium

**Recurring or One-Time?** Recurring

Real estate transfer taxes are imposed on the transfer of the title of real property, where the tax is paid by the buyer, seller, or split between the two when property is sold or ownership transfers, subject to many statutory exceptions. Much like the parcel tax, the potential benefit of a real estate transfer tax for affordable housing is that it would spread the responsibility for raising funds across a range of property owners and buyers, for residential and non-residential uses.

Under State law, the real estate transfer tax only requires a simple majority to pass if the proceeds are placed in a jurisdiction’s General Fund for general governmental purposes. A real estate transfer tax dedicated to a specific use like affordable housing would require two-thirds voter approval, unless placed on the ballot via a citizen’s initiative, as previously noted for parcel taxes.

As of March 2022, San Joaquin County levied a total real estate transfer tax of \$1.10 per \$1,000 in property value. For properties located in incorporated municipalities, revenues are split equally with the respective municipality. For unincorporated properties, the County retains the full tax amount.<sup>26</sup>

<sup>25</sup> David Garcia and Muhammad Alameldin, “In 2022, California Voters Will Vote Locally on Housing,” Terner Center for Housing Innovation, <https://ternercenter.berkeley.edu/research-and-policy/housing-on-the-ballot-2022/>

<sup>26</sup> “California City Documentary and Property Transfer Tax Rates” California Local Government Finance Almanac, March 2022, <http://www.californiacityfinance.com/PropTransfTaxRates.pdf>

# The Path Forward for a San Joaquin County Housing Trust Fund

## Securing Funding for a Regional Housing Trust Fund

San Joaquin County has limited existing sources of funding for affordable housing, which creates a short-term funding issue for a Regional Housing Trust Fund but also underscores the importance of creating a reliable source of local funding for affordable housing gap financing.

In order to move forward, San Joaquin County needs to maximize available local sources available—including REAP 2.0 and Mental Health Services Act funding—to secure a matching grant from HCD’s Local Housing Trust Fund Matching Grant Program. In particular, County Mental Health Services Funds already dedicated to housing projects could be held in the Trust and used to secure matching grants, without affecting their programmatic use. Similarly, it will be important to strategize with State representatives about receiving state appropriations for both seed funding and medium-term funding.

In the medium term, there is precedent in other parts of

the state to use General Obligation bonds to support affordable housing investments. San Joaquin County should explore these options with a registered municipal advisor.

It will also be important to begin to secure a long-term source of funding that offers a recurring source of funding. Although real estate transfer tax or sales tax allocations may be small, on an annual basis they could potentially serve as a critical recurring source of funding for a Regional Housing Trust Fund. Similarly, as time goes on it may be worth revisiting member fees to help to cover administrative costs.

In order to continue moving forward it will be important that the Regional Housing Trust Fund build support across key stakeholders. Experience in other regions has shown that identifying champions who will advocate for support at the State and County level is critical to securing funding for a Housing Trust Fund. This will help San Joaquin County ensure that there is a sustainable local source of financing for affordable housing.

Figure 11. San Joaquin Funding Source Strategy Over Time

