

# Housing Trust Fund Strategy

Recommendations of the Social Services Commission

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# 1. Introduction

This document, drawing on City of Davis staff reports, peer-reviewed academic literature, and case studies of best practices from other municipalities, proposes recommendations for systematizing the management and use of the City's Housing Trust Fund (HTF). We intend this report to be a living document, to be periodically updated by the Social Services Commission as the City's needs and resources change and the global knowledge base on the use of Housing Trust Funds grows.

Subsections 1.1-1.2 below provide an overview of the Housing Trust Fund. Section 2 presents general strategic recommendations for allocating HTF funds, including our conceptual framework—the continuum of housing needs in Davis—quantitative targets for addressing various types of needs, and a systematic allocation process. Section 3 offers recommendations for growing the Housing Trust Fund.

## *1.1. What is the Housing Trust Fund?*

Housing Trust Funds (HTFs) are dedicated streams of funding, operated by political jurisdictions, public agencies, and nonprofit organizations, used to support the creation and provision of affordable housing. These funds generally receive predictable, ongoing revenues instead of being subject to annual appropriations processes. Dedicated funding services to insulate HTFs from competing with other budget priorities and make multi-year planning of affordable housing and related programs possible (Institute for Local Government 2007).

HTFs can be used for a variety of purposes. Larger funds directly finance the creation of projects and the building of affordable housing units. Smaller funds fill financing gaps, for example by assuring developers front-end or back-end funding that facilitates the securing of additional financing from other sources, or by providing loan guarantees. HTFs can also offer low-interest loans directly to developers and, especially in the case of housing-focused nonprofit developers, provide budget support for capacity building and administrative costs. HTFs also help individual homeowners, housing non-profits, and public agencies preserve and manage existing affordable housing. HTFs also can be used to provide down payment assistance, subsidize rent, and help with mortgage payments to prevent eviction and foreclosure. In some cases, HTF guidelines permit ancillary assistance, e.g., for transport and medical expenses, to families in need, in recognition that housing stability is affected by the ability to meet these other costs (Institute for Local Government 2007).

The City of Davis Housing Trust Fund, like all HTFs, operates under its own stipulated guidelines. The following text, reprinted from the July 15, 2019 Staff Report to the Social Services Commission (Stachowicz 2019), describes our HTF's guidelines and priorities:

The Housing Trust Fund is managed by the City and is used for **the rehabilitation, preservation and production of affordable housing**....When the City has provided money in the past to a specific affordable housing project, the funds have been the city's equity contribution to the project. In these cases, funds are

- a. not be used for administration or consulting services of the sponsor/non-profit.

b. [to] be used for the purposes of acquisition, rehabilitation, and/or construction of residential structures.

c. on a case by case basis, be used for the rehabilitation, construction, and/or expansion of integrally related facilities at the affordable housing site. Examples of the type of facilities to be considered: child care, congregate dining, laundry, multi-purpose.

In 2007, the City also clarified the following Affordable Housing Funding Priorities to assist with allocation of available Housing Trust Fund dollars:

a. Projects with existing funding commitments and projects currently under construction.

b. Existing projects within the City/Agency's affordable housing program with an urgent need for preservation, rehabilitation, and/or refinancing.

c. Projects that will be constructed on existing and newly acquired land dedication sites.

d. Projects that aid in the conversion of existing projects in the City/Agency's affordable housing program to permanent ownership by local, housing non-profits at the end of tax credit partnerships.

e. Repayment of Inter-fund loans within the City/Agency's and housing bond repayment obligations of the agency.

f. Projects that can exhibit a positive cost/benefit analysis compared with other projects existing and proposed and with affordable housing industry standards.

g. Projects that provide new affordable housing units through the addition of new units to the City/Agency's housing stock.

The overall purpose of the HTF is to support the well-being of the City's residents. As Box 1 discusses, **proactive use of HTFs can mitigate much greater fiscal outlays in the long-term.**

#### Box 1: The Public Fiscal Impacts of Affordable Housing

In the long-run, HTFs are cost-saving measures for jurisdictions. Inadequate housing leads to unemployment, illness, and other costs that are borne by public housing. A study of Santa Clara County found that, over a six-year period, homelessness cost the county \$520 million in services (Flaming, Toros, and Burns 2015). Another report from North Carolina estimated that substandard housing led to direct health costs of \$13.4 million, with indirect costs another \$81.4 million—for children alone (Flaming, Toros, and Burns 2015; Chenoweth 2007). Housing low-income elderly people in nursing homes at state expense can cost twice as much than providing direct rental assistance and public social services (Institute for Local Government 2007). Investing in the housing market has downstream economic impacts on jobs and tax revenues.

### *1.2. What is the current status of the City of Davis HTF?*

The City spent \$438,113 in 2018 from HTF funds. As of July 2019, **the City of Davis has approximately \$570,000 currently available in**

the Housing Trust Fund.

Existing sources of local revenue were summarized in the July 15, 2019 Staff Report to the Social Services Commission (Stachowicz 2019):

Currently, the Housing Trust Fund's sources of revenue are limited to loan repayments (varies), fees paid to the City when an affordable ownership property transfers hands (1% of the cost of the purchase price), annual net rent revenue from the rental GAMAT homes<sup>1</sup> (approximately \$150,000), and in-lieu fees<sup>2</sup> (\$75,000 per unit). A new source of funding comes with the recently approved agreement on the proposed development at 3820 Chiles. Rather than provide units this project will provide an ongoing annual payment equivalent to 1.65 percent of the total gross rental income, with a minimum payment of \$100,000, to the Housing Trust Fund. The annual amount is estimated to start at \$125,000. At this point, that is the only development to have proposed and been approved for this type of payment into the Housing Trust Fund.

At the state level, California Senate Bill 2 (SB2; the Permanent Local Housing Allocation Program), passed in 2019, imposes a \$75 charge on real estate transactions and provides 70% of the revenue to local jurisdictions to build or rehabilitate multifamily rental housing for low-income ( $\leq 60\%$  of area median income) households, or to use on programs to assist people experiencing or at risk of homelessness.<sup>3</sup> The State uses the same methodology as the Community Development Block Grant process to decide each jurisdiction's allocation; the City of Davis received **\$310,000 from SB2 funds for 2020**, (estimated future project on funds would be good to add here) to be used for developing accessory dwelling unit plans, creating a stormwater treatment plan for the Downtown Specific Plan, and doing financial modeling for specific development scenarios (Stachowicz 2019).

In addition, California Senate Bill 3 (SB3; the Veterans and Affordable Housing Bond Act of 2018) and the related Proposition 1 allows the State to borrow up to \$4 billion for affordable housing, with \$1.8 billion for multi-family rental projects, \$1 billion for veterans home loan assistance, \$450 million for housing near public transit, and \$450 million for down-payment assistance to low- and moderate-income families looking to buy a home (Stachowicz 2019).<sup>4</sup>

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<sup>1</sup> The GAMAT homes are so named because they are located on Glacier Place, Albany Circle, Marden Street, Arena Drive, and Tufts Streets.

<sup>2</sup> The City of Davis' inclusionary housing program allows in-lieu fees to be paid as an alternative to direct construction of the required affordable housing (see Municipal Code Section 18.05.050 and 18.05.060). The City currently receives \$75,000 in in-lieu fees per affordable unit, a figure much lower than other California cities of comparable size (REF).

<sup>3</sup> See [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201720180SB2](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB2) for the text of SB2.

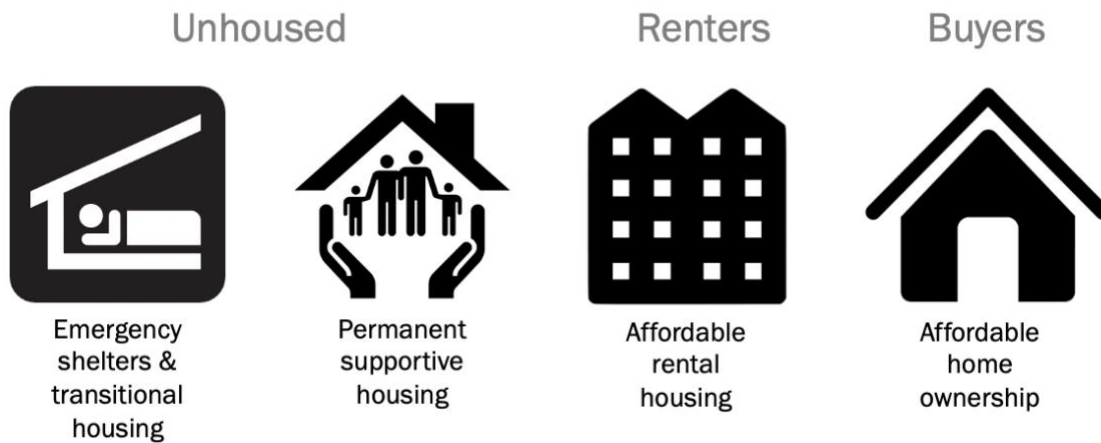
<sup>4</sup> See [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201720180SB3](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB3) for the text of SB3.

## 2. Allocating HTF monies

### 2.1. *The continuum of housing needs*

The SSC recommends that the HTF be used to support three broad groups of needs within the Davis community : 1) the unhoused; 2) prospective/current renters; 3) prospective home buyers. Figure 1 below illustrates the overall continuum of housing needs. The housing trust fund is concerned with emergency shelters & transitional housing, permanent supportive housing, affordable rental housing, and affordable home ownership. These are families that fall into extremely low-income (ELI), very low-income (VLI), and moderate income categories, all of which are determined in comparison to the Area Median Income (AMI).<sup>5</sup> The overall goal is to help Davis residents progress towards greater housing independence regardless of their income level.

Figure 1. The continuum of housing.



Although circumstances may dictate that the City focus on one or the other groups of these at a given point in time, in general we believe that **the City of Davis should strive to address the needs of different groups in the housing continuum simultaneously**. Unaddressed needs for any category reinforce vulnerabilities in other categories. For example, lack of available affordable rental housing may push people into homelessness. Lack of available affordable for-sale housing may trap families in debt, preventing investment in home ownership and reinforcing generations-old patterns of housing segregation by race and class (Rothstein 2017).

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<sup>5</sup> The Department of Housing and Urban Development (HUD) sets area-specific limits for each income category (extremely low, very low, low, moderate) and household size. For a 4-person household in 2020, the extremely low-income threshold in the Yolo County Metro Area is \$27,750; very low-income is \$46,250; and low is \$74,000. Details are available here:

<https://www.huduser.gov/portal/datasets/il/il2020/2020summary.odn>.

## *2.2. Setting overarching targets*

As the City of Davis approaches the new Housing Element cycle, we believe that the Housing Trust Fund should be strategically guided by quantitative long-term targets that cover each of the groups in the continuum of housing needs. Such targets define in clear terms the mission of the HTF and of the City's affordable housing program more generally. By assessing how a proposed use of HTF funds moves the City towards the chosen targets, the Social Services Commission can more systematically make allocation recommendations.

We suggest the following overarching long-term housing-related targets for the City of Davis:

- **Zero homelessness.** All people experiencing or at-risk of homelessness should have access to the material and psychosocial resources needed to obtain permanent housing, with supportive services as needed.
- **Zero unmet need for affordable housing.** People in all low- income categories (extremely low, very low, and low) should have access to affordable housing, as evaluated by the Regional Housing Needs Assessment.
- **Designation of 15% of new homes built each year in the City as deed-restricted for affordable ownership housing.** People of all backgrounds should have access to for-sale affordable housing. The 15% target takes into consideration the 5 to 25% for-sale affordable housing requirements currently specified in the City of Davis Municipal Code section 18.05.050 for new for-sale housing developments.<sup>6</sup> Homeownership is the most effective way for families—including families that have been historically discriminated against on the basis of race—to build their asset base (Rothstein 2017).

We recognize that these targets are ambitious, but we believe that they represent attainable long-term goals that reflect the City of Davis' commitment to a more inclusive, diverse, and healthier community.

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<sup>6</sup> Section 18.05.050(a)(1) reads, in part (emphasis added):

“(1) Affordable Housing Requirements, by Residential Product Type.

(A) For...market rate single-family detached ownership units on lots larger than five thousand square feet in area, the developer must provide for a number of affordable housing units equivalent to **twenty-five percent** of the total units being developed...

(B) For...market rate single-family detached ownership units on lots smaller than five thousand square feet in area, the developer must provide for a number of affordable housing units equivalent to **fifteen percent** of the total units being developed...

(C) For...market rate single-family attached ownership units, the developer must provide for a number of affordable housing units equivalent to **ten percent** of the total units being developed...

(D) For...market rate stacked condominiums or ownership units within vertical mixed-use development, the developer must provide for a number of affordable housing units equivalent to **five percent** of the total units being developed...

### ***2.3. Systematizing the allocation process***

Deciding how to allocate HTF funds from year to year is a difficult task. At any given point in time, political, fiscal, and health circumstances push certain housing issues to the forefront of the attention of the Social Services Commission. This may make maintaining a broad strategic direction difficult, and thus important needs may fall by the wayside.

To deal with these risks, we believe that the Social Services Commission should systematize its recommendations around allocation of HTF funds. We recommend the SSC develops its recommendations by viewing allocation as a three-stage iterative process:

1. In **Stage 1**, the total annual disbursement from the HTF should be determined and divided among the three groups in the continuum of housing needs.
  - We recommend that the total annual disbursement does not exceed the expected inflow to the Housing Trust Fund, thus maintaining the HTF balance. However, we anticipate that some years will necessitate drawing down the HTF, and other years will see an increase in the balance of the HTF.
  - We recommend that decision-makers *initially* assume an equal fraction (one-third) of the total inflow will be invested in each group of the continuum of need. For example, if the expected inflow for the coming year is \$300,000, then the starting point will be to assume \$100,000 of funds will be spent for unhoused programs, \$100,000 for affordable rentals and \$100,000 for the affordable for-sale market.
2. In **Stage 2**, the project/program needs of each general population group in the continuum of housing needs—the unhoused, renters, and buyers—should be considered separately, and each possible project/program idea prioritized.
  - These project/program ideas should be prioritized in light of their potential to advance the City towards the overarching targets listed in section 2.2. More generally, decision-makers should consider whether each project/program is necessary to build a strong foundation for affordable housing in Davis; viable in design, implementation, and management; feasible given the availability of funds in the HTF and other sources; and, when circumstances require, whether it addresses immediate threats to human well-being.
  - A simultaneous but separate consideration of the needs of each group ensures that no group is left out of consideration for HTF funding from the outset. For example, the highest priority for the unhoused might be emergency shelter capacity, followed by increased case management services; the highest priority for home buyers might be down payment assistance, followed by loans for home maintenance; and so on. At this stage, these priority lists can co-exist without being in direct competition with each other.
3. In **Stage 3**, final allocations to various program and project ideas should be determined.
  - Cost estimates to meet each priority need should first be discussed.
  - As overall affordable housing priorities are discussed, funds may be shifted from one group to another, e.g., when adequate investment in a single idea requires more than one-third of the available and usable HTF funds.

- Some investments may require more flexibility in use, and so a specified overall amount can be committed to a group without detailing its precise disbursal modality or date. For example, a given amount can be set aside in a year for down payments on purchase of affordable housing, even if those purchases are not underway at the time of finalizing the allocation strategy.

Again, this process is iterative; for example, as priorities emerge in Stage 2, the total disbursal amount and group-specific disbursal amounts chosen in Stage 1 may be reconsidered.

## 2.4. SSC Recommendations for HTF Priorities in 2021

To illustrate how the above process would work, the HTF subcommittee, in consultation with community experts and considering prior SSC input, has developed the following group-specific set of priorities for use of the HTF in the 2021 program year (Table 1). (Upon clarification of budget figures, we will also provide Stage 1 and Stage 3 recommendations, and revisit the Stage 2 priorities below).

Table 1. Sample prioritization of how the City of Davis Housing Trust Fund could be used to progress towards the overarching targets.

Priority rank	The unhoused	Prospective & current renters	Prospective buyers
1	Increasing emergency non-congregate shelter capacity	Rental assistance & emergency vouchers for those at eviction risk, especially extremely/very low income and undocumented families; motel vouchers if needed	Single online hub/navigation center for information on available for-sale or resale homes
2	Refurbishing existing structures for use as permanent supportive housing	Auxiliary assistance for low income families: security deposits/vouchers, utility costs, credit repair, moving costs	Down payment assistance program (3-5%), as well as vouchers for Homebuyer Education Class and Certification
3	Case management support for permanent supportive housing, either existing or planned	Economic self-sufficiency educational program	Silent note/loan for affordable home maintenance with possible 1) repayment through proceeds from sale; 2) forgiveness after 10 years; or 3) payment w/ long-



			term non-interest-bearing note
4	Community navigator force (see Goal 2(a) of 2019 Davis Three Year Plan to Address Homelessness)	Single online hub/navigation center for all affordable rental information, including vacancy status, wait lists, and pairing people up for shared housing (between potential housemates or owners/renters); single application for all affordable housing	Homebuyer Education Class as requirement to home purchase or wait list. Qualified list includes those with verified information; the ready-to-buy list requires homebuyer education prior to purchase agreement/COE
5		Development of shared housing database, made available through the online hub	City buyback of seller default on affordable homes  New projects pay into an affordable housing endowment.

The subsections below discuss in detail how we arrived at each priority.

#### *2.4.1. The unhoused*

##### *Priority 1: Emergency non-congregate shelter capacity*

Much of Davis' traditional homeless shelter capacity, including the Interfaith Rotating Winter Shelter (IRWS), is now offline due to COVID-19. It is no longer safe for the unhoused to be sheltered in conditions that necessitate close contact. Project Roomkey, a state-funded initiative that enabled the unhoused to stay in motels, ended June 30th. While COVID-positive and high-risk individuals are currently sheltered in non-congregate housing, the remainder of the unhoused population is now without emergency shelter. The federal government has made \$800,000 in funds available to Yolo County through the Emergency Solutions Grants-Coronavirus (ESG-CV) program. Decisions on grants will be made by the Homeless and Poverty Action Coalition (HPAC) in September; the City of Davis, potentially in collaboration with local non-profit organizations, is likely to receive funds from this source. In addition, the City and its county and nonprofit partners are currently in the process of implementing an apartment-based non-

congregate housing program. Remaining budgetary needs for non-congregate housing should be considered by the HTF.

*Priority 2: Refurbishing existing structures for use as permanent supportive housing*

With the opening of 44 units in Creekside, Davis has ~72 permanent supportive housing (PSH) units (43 in Cesar Chavez and 5 in Pacifico, though the latter are not currently operational). Given the Davis homeless population—at least 183 in the January 2019 point-in-time count, a number that likely underestimates the total number—more permanent supportive housing and rapid rehousing units will need to be identified or built. Considering the current unused status of the Pacifico Affordable Housing Development, an infusion of funds to refurbish the existing structures may allow Davis to quickly make permanent supportive housing units available.

*Priority 3: Community navigators/health workers*

Community health workers (CHWs) are a proven effective, often low-cost means of improving public health outcomes in at-risk populations (Perry, Zulliger, and Rogers 2014). Homelessness often (but not always) intersects with mental illness, past traumatic experiences, and substance abuse. Treatment programs for these issues exist at the city and county levels, but many unhoused people do not have information about how to access them. Enhancing the efforts of existing outreach services—especially the Homeless Outreach Services Coordinator—may ease these access issues. In addition, Goal 2(a) of the [2019 Davis 3-Year Strategy to Address Homelessness](#) has as a target 3 additional private/public staff and 30 trained volunteers for peer support over the next 3 years; this trained navigator force could be trained with CHW skills relevant to the unhoused. The existing skill base and enthusiasm for community voluntarism in Davis may also facilitate volunteer recruitment. A CHW program will likely have higher front-end costs for start-up, followed by lower ongoing operating costs. The ongoing Project Homekey is piloting a paid staff and volunteer community navigator force; the HTF could focus on expanding this program to expand volunteer training and expand the size of the volunteer force.

*Priority 4: Case management support for permanent supportive housing*

PSH residents should have access to the range of needed mental, physical, and behavioral health services. The HTF could help to support staffing and other costs for these required services, both in existing and upcoming PSH projects.

**2.4.2. Prospective/current renters**

*Priority 1: Rental assistance for those at risk of eviction*

In the current environment of COVID-19 and economic downturn, the top priority is to use HTF monies to assist people/families who are already housed but are at immediate risk of either losing their housing through eviction or may accumulate unpaid rental debt during the current eviction moratorium. A special focus should be on extremely low-income and very low-income families, as well as those in high-risk categories, including undocumented families.

*Priority 2: Auxiliary assistance for low-income families*

Beyond rent itself, renters have many other needs that require liquidity, including utility payments, bus passes, school supplies, etc. Other needs may include assistance with security deposits for people looking to rent, credit repair help, moving assistance, and help with finding

employment. While these needs are not directly housing costs, they all come from the same overall household budget, and would be very important to the maintenance of a rental household.

*Priority 3: Economic self-sufficiency educational program*

A self-sufficiency program would help bring and maintain families out of poverty. Participants in this self-sufficiency course would receive money management skills and financial literacy, including basic financial planning, credit counseling, budgeting, advice in dealing with credit card debt, ways to open checking and savings accounts, and guidance on building savings.

*Priority 4: Online hub for affordable rental housing*

The City would build on its [current affordable rental housing website](#) by offering a fully integrated, user-friendly portal containing all pertinent affordable housing rental information for Davis, including a means for people to easily submit applications online. Such a system would require the cooperation of property managers and owners; an outreach and education program benefit targeted to both renters and landlords can help disseminate the benefits of such a portal. The design of such a website could be accomplished inexpensively, perhaps as a graduate student project.

*Priority 5: Development of a shared housing database*

As our community implements housing strategies, we will face barriers for individuals trying to obtain and sustain housing in this high-rent environment. Shared housing is an option that can be offered to lessen the burden of rent, bills, food, and other costs. Shared housing can also provide social benefits. Shared housing is an important option for tenants who need or want the advantages and are willing to work out roommate agreements.<sup>7</sup>

*2.4.3. Prospective buyers (for-sale markets)*

*Priority 1: Online hub for affordable for-sale housing*

The City would build on its current affordable ownership program website by offering a fully integrated, user-friendly portal for affordable for-sale housing in Davis, including information on the loan and offer processes. Such a portal would clarify management of the program and buyer's lists (between the City of Davis, NeighborWorks, Yolo County Housing Authority, and builders/developers), how to be included on interest (new construction and resale interest, as well as how to migrate from one to the other), qualified, priority, waiting to be selected, and lottery lists, and the various types of for-sale housing available. An application form to be placed on an interest list, standardized for all users and circumstances, should also be available.

*Priority 2: Down payment assistance program (DPA)*

Down payments are likely to be barriers to affordability of for-sale housing. We suggest down payment assistance of 3-5% of the home sales price, in line with Federal Housing Authority

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<sup>7</sup> This priority is drawn from the forum presented in collaboration with CDSS, HCFC and HCD, the HUD, September 2020).

(FHA) requirements for a buyer's contribution to home purchase. Because resources for DPA may be limited, we suggest offering DPA to the same priority levels, and according to the same ticket procedures, indicated in the Davis Municipal Code's Incentive System (18.07.040). This section specifies the priority groups and number of tickets as: 1) *the local workforce*: four tickets to a household with an adult who is a member of the local workforce; 2) *persons with disabilities*: two tickets to a household with a head of household, spouse, domestic partner, or sole member who has a disability; 3) *seniors*: two tickets to a household with a head of household, spouse, domestic partner, or sole member who is a senior; 4) *general public*: one ticket to a household that does not fit into one of the other categories.

*Priority 3: Silent note/loan for affordable home maintenance*

Since the beginning of the Affordable Housing program in Davis, there has been no mechanism to help affordable homeowners make repairs, updates, or maintain their homes. With an equity cap on many of the AFH homes, it becomes difficult for a homeowner to recoup any maintenance or updating expenses. We recommend providing a silent note/loan for such costs. Loan funds could be used for various improvements, but are required to fall under the category of dealing with health and safety hazards (the top priority), property maintenance, functional obsolescence, energy efficiency, and removal of architectural barriers for the disabled (all examples seen in housing programs throughout the region). Common repairs permitted under this loan program may include but are not limited to: new roofs and gutters, insulation, central heating, remodeled kitchens and baths, electrical and plumbing upgrades, painting, ramps, grab bars, concrete or deck repair, and solar electric systems/rooftop solar. Repayment of the silent note/loan should be deferred until the earlier of: a) sale or transfer of the home; b) cash out refinance; c) payoff of the First Mortgage; d) recordation of a Third Mortgage; e) default of the First Mortgage; f) forgiven after 30 years.

*Priority 4: Homebuyer education program*

Homebuyer education should be offered through City of Davis recommended resources. Additionally, Homebuyer education should be a requirement of all applicants to the city Affordable Housing Program. This would help an individual purchasing an affordable home to learn about financial planning for the expenses and the benefits of homeownership, including maintenance costs, tax benefits, who to contact if financial issues are experienced, and the importance of budgeting and saving.

*Priority 5: City buyback of foreclosed affordable homes*

There are currently 131 homes in the city of Davis that have an affordable home deed restriction with an appreciation cap. This is a very low number (less than 0.5%) of affordable homes for a city that has approximately 22,948 housing units in all (City of Davis Department of Community Development and Sustainability 2017), and the City of Davis must protect this critical affordable housing stock. In 2019, a deed-restricted affordable home was foreclosed on and the city was unable to buy back the property, a tremendous loss for the City. Resources in the form of cash could be used to buy back foreclosed homes for resale as affordable properties—or even as a market rate home, with net proceeds given to the HTF. This is especially important in a time of recession when foreclosure numbers are likely to rise.

### 3. Building the Housing Trust Fund

Given the great deal of unmet affordable housing needs in Davis, increasing the size of the HTF is a priority. Almost all HTFs across the country are funded through developer impact fees or residential in-lieu fees, but a significant fraction also rely on a more diverse array of funding sources. We encourage the City to implement more forms of dedicated revenues for the HTF. Some examples of revenue sources used in California are listed below, categorized by near-term and medium-term possibilities, with the latter to be considered when the current health and economic situation improves.<sup>8</sup>

#### 3.1. Near-term sources of revenue

- *Linkage/Development impact fees.* Development fees, used by at least 16 Californian cities,<sup>9</sup> are among the most common sources of HTF revenue.<sup>10</sup> Cities collect such fees to pay for the increased demand in public services imposed by new developments. Development impact fees vary greatly across cities. Fee schedules for the City of Davis [Planning Division](#) and [Building Division](#) are listed in the linked pages.
- *Real estate sales fees.* We recommend that any future housing developments would have a transaction fee charged each time there is a sale of the property, to be deposited into the HTF. The fees would be an endowment fee on transfer and lien.
- *Grants.* We recommend completing a comprehensive review of grants available for the Housing Trust Fund. We also recommend applying annually for matching funds from the State of California's [Local Housing Trust Fund \(LHTF\) program](#), which provides a dollar-to-dollar match to local HTFs. Applying thus entails identifying or developing a project that could go forward with 50% funding by the Davis HTF.
- *Sales of public land.* Revenue from sales of City- or school district-owned land could be dedicated in part to the HTF. We note also that Surplus Land Act AB 1486 stipulates that local agencies must send notices about available surplus land to the California Department of Housing and Community Development, to other local public entities, and affordable housing developers.<sup>11</sup> A list of these properties is essential information to support community efforts to grow affordable housing.

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<sup>8</sup> This section draws on the Sacramento Housing Alliance White Paper *Enhance and Expand the Housing Trust Funds in the City and County of Sacramento* (Beaty 2017).

<sup>9</sup> Berkeley, Citrus Heights, Cupertino, Elk Grove, Emeryville, Fremont, Menlo Park, Oakland, Oxnard, Palo Alto, Pasadena, Petaluma, Santa Monica, and West Hollywood.

<sup>10</sup> City HTF revenue data comes from <https://housingtrustfundproject.org/wp-content/uploads/2019/11/City-htfund-revenue-sources-2019.pdf>

<sup>11</sup> See [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201920200AB1486](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB1486) for the text of AB 1486.

- *Property tax surcharges.* Numerous small cities across the country—most notably a range of towns in Massachusetts have enacted property tax surcharges specifically to increasing housing for vulnerable and low-income individuals and families.
- *General Fund contributions.* The City could directly enhance the HTF by contributing General Fund monies.

### 3.2. *Medium-term sources of revenue*

- *Transient occupancy and tourist taxes.* Hotel, motel, AirBnb, and other transient occupancy taxes (TOTs) are natural fits for affordable housing funding. Five California cities (Anaheim, Long Beach, Mammoth Lakes, Oakland, and San Francisco) currently use transient occupancy taxes to fund their local housing trust funds.<sup>12</sup> Davis currently imposes a 12% transient occupancy tax; this tax was deferred due to COVID-19 for the first half of 2020. The TOT generated \$2.2m in 2019.<sup>13</sup> A 1% increase in the TOT in that year (to 13%) would have generated an additional \$163,000 dollars. We suggest this modest increase could be used to bolster the HTF. Of the five cities listed above that use TOT to fund housing trust funds, Anaheim (15%), Oakland (14%), and San Francisco (14%) all have TOT rates above that of Davis.<sup>14</sup> In addition, tourist taxes could be placed on rental cars, ride-sharing companies, and—in terms of economic growth—restaurant taxes, particularly on business above a determined threshold of gross sales.
- *Large business registration fees.* Businesses could be assessed a registration fee set according to the increased housing and social service requirements they are likely to require of the City; thus larger businesses might be assessed while smaller businesses might be exempt.
- *Sales taxes.* California has a base sales and use tax rate of 7.25% statewide, and local jurisdictions can add their own taxes over the base rate. The City of Davis sales tax is 8.25%; 502 cities in California, including Sacramento, Fairfield, and Vallejo, have a higher tax rate than Davis, with many jurisdictions in Los Angeles County setting sales tax rates between 9.5% and 10.25%. Even a small increase in the sales tax could generate significant revenue for the HTF. In the 2019-20 budget, the City expects to receive nearly \$14 million in sales and use taxes.<sup>15</sup> A 0.75% increase in the sales tax rate, to 9.0%, would generate more than a million dollars in additional revenue.

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<sup>12</sup> <https://housingtrustfundproject.org/wp-content/uploads/2019/11/City-htfund-revenue-sources-2019.pdf>

<sup>13</sup> <https://www.cityofdavis.org/home/showdocument?id=14653>

<sup>14</sup> [https://sco.ca.gov/Files-ARD-Local/LocRep/2017-18\\_Cities\\_TOT.pdf](https://sco.ca.gov/Files-ARD-Local/LocRep/2017-18_Cities_TOT.pdf)

<sup>15</sup> <http://documents.cityofdavis.org/Media/Default/Documents/PDF/Finance/2019-2021-Budget/Adopted-2021/01-Budget-Summary-Adopted-20-21.pdf>

- *Social services-focused parcel taxes and bond measures.* With increased public awareness of the seriousness of Davis' affordable housing situation, ballot measures to enact new parcel taxes and/or bond measures to specifically finance the Housing Trust Fund may be possible. In the long-run, such large investments are necessary to fully assure that all needs on the housing continuum are met. To date, bond measures specifically for affordable housing have been adopted largely by major cities and counties (including Alameda and Santa Clara County); exploring the feasibility of such a measure for a mid-size town like Davis would be valuable.

### ***3.3. Long term sources of revenue***

- *New projects supporting affordable housing.* Other neighboring communities like North Natomas have agreed to allow an "endowment fee" on the deed of market rate homes. In North Natomas, under the "Charitable Housing Agreement," with each transfer of sale the Buyer pays a fee to an entity that the developer, Lennar, established. The monies collected are for the sole purpose of supporting affordable housing (see Sacramento County Recording Book 20060511 Page 2496).
- *Private funds and gifts.* The HTF can be the benefactor of support from private sources as well as foundations. We recommend looking at the feasibility of partnering with private sector organizations to launch an affordable housing capital campaign. Private parties and community members have indicated interest in supporting efforts for housing and the HTF could serve as a repository and reporting function for their donations. Philanthropic organizations such as the Chan Zuckerberg Initiative and Gates Foundation are contributing large sums in the Bay Area to solve housing issues. In addition, community benefit agreements with the University of California-Davis and other private and public institutions based in the City could stipulate contributions to the Housing Trust Fund.

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