

# Principles for Allocating Housing Funds

by Ethan Handelman | August 2017

Communities confronting the rising cost of housing in desirable areas often choose to put their own local and state funds into affordable housing. Potential decreases in federal funds sharpen the need for communities to act. Making a public commitment to fund affordable housing is a powerful way to make a community more inclusive and economically vibrant. Those funds take many forms and have many sources.

## STATE AND LOCAL FUNDS FOR AFFORDABLE HOUSING

Forms	Sources
Affordable housing trust fund	Real estate transfer fees
State housing tax credit	Commercial impact fees
Property tax abatement or exemption	General revenue
Loan fund	Bond issuance
Rental subsidy program	Revolving loan proceeds
Community development investments	Sale of publicly owned assets

Allocating affordable housing funds can be a daunting task, when need outpaces funds and political pressures abound. The National Housing Conference (NHC) and the members of our Inclusive Communities Working Group therefore thought it would be helpful to share principles to guide states and localities in allocating resources. These principles arose from the group's discussions of participants' experiences and their observations of different allocation processes over time. We include some examples of allocation procedures based on the principles to help make the ideas more concrete.

There is no single blueprint for resource allocation, because there is much variation among places, housing need and local politics. The best practices suggested here from communities that have allocated resources before can help new allocators avoid pitfalls and make the most of limited public funds. Our hope is that these ideas can be a guide to shaping the right allocation policy, especially for places taking on this challenge for the first time.



## Funding Allocation Principles

In brief, the principles are:

- ▶ Transparency about requirements and how awards are chosen
- ▶ Maps to illustrate geographic criteria clearly
- ▶ Input from all stakeholders
- ▶ Iteration to improve allocation over time
- ▶ Throughput of awards at regular, predictable intervals
- ▶ Alignment with other sources of public and private funds

## Principles

Resource allocation functions better when all participants know the rules in advance and can see how they are applied to funding decisions. In contrast, an allocation process that appears arbitrary or unfair will provoke challenges to the decisions and often weaken support for the program. With transparency, applicants who do not receive funds will still be unhappy, but they can focus their efforts on improving their application for the next round and constructively changing the criteria (see Input below) rather than challenging the program itself.

Transparency is most salient in competitive allocation, as a way to deflect worries about favoritism and instead focus stakeholders on issues of policy and housing need. For instance, all applicants should know what the minimum threshold requirements are and the basis for judging competition. If the affordable housing resource is an as-of-right benefit like a tax abatement that all qualified properties could receive, make the requirements and process for receiving the benefit clear to all.

Transparency also works best when program rules are simple. For instance, if assigning points, use a 10- or 100-point scale. Both participants and program managers can easily understand the relative value of different items in the scoring. Simpler rules allow new applicants better ability to apply for the first time, so that the process does not become an insider club of repeat winners.

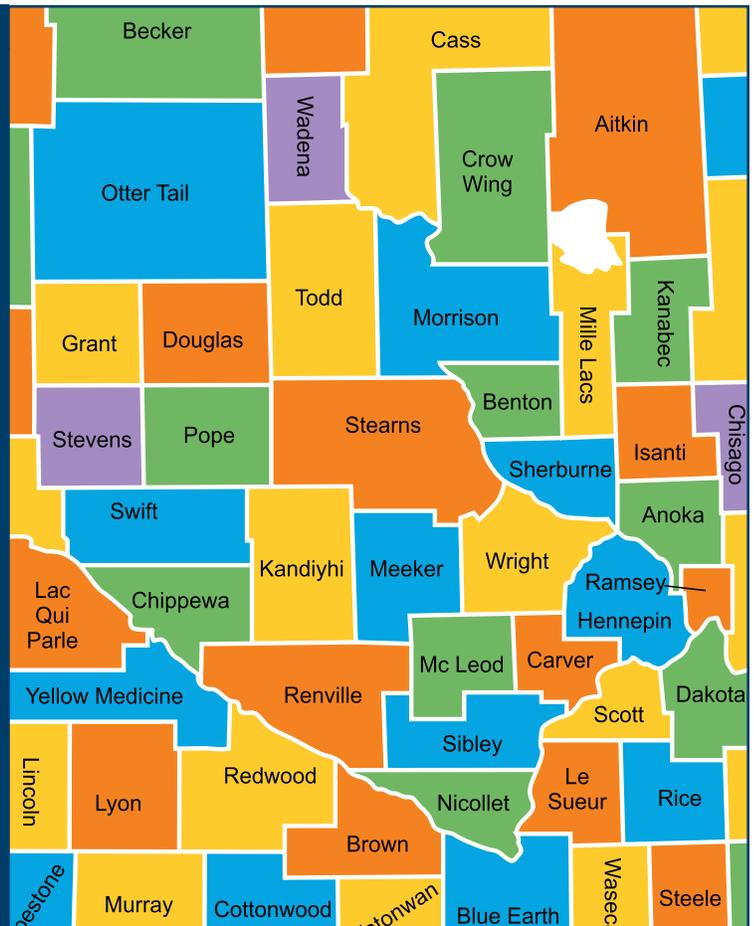
## Maps

If the resource allocation involves geographic criteria, use maps to show applicants exactly how the competition will treat sites. Put those maps out early, so that developers can make their best effort to secure sites in desired areas and communities can see how they will fare in receiving resources.

Maps are also a powerful tool for seeing how housing interacts with other aspects of economic opportunity, such as education, transportation, employment and more. They are a key element of planning in the federal fair housing planning process. Our brief on **Opportunity Mapping** offers examples and ways to get started.

### Example of Geographical Area: Maps in Minnesota's QAP

When the state of Minnesota allocates Low Income Housing Tax Credits every year, the state allocating agency, Minnesota Housing, releases maps of the state approximately 15 months in advance to show applicants how properties in different locations would fare under different parts of the Qualified Allocation Plan's (QAP) competitive scoring. Using a map eliminates uncertainty about whether a particular site qualifies for particular points, and advance notice allows applicants to secure sites well in advance. For instance, in the 2018 QAP, a map identifies job growth areas that qualify for priority in some allocations.



## Input

Gather feedback from all stakeholders in ways that lets them know they are being heard. Reach out actively to all people in the community, including applicants, other funders, community organizations, advocates, other government stakeholders, local business interests, service providers and the community at large. If possible, give people more than one way to provide feedback, rather than just a single, time-limited public hearing.

### Example of Input: Arlington County Planning Process

Arlington County, Virginia, engaged in a three-year community effort to develop its new Affordable Housing Master Plan. The plan guides allocation of the county's Affordable Housing Investment Fund, which since 1988 has originated more than \$274 million in loans for affordable housing. In 2017, the fund will allocate \$13.7 million. Outreach included public forums, local community meetings in homes and houses of worship, community organizing by affordable housing advocates and publication of the county's detailed assessment of housing need.

**Learn more.**

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## Iteration

Housing need, market conditions, population and many other factors change over time. Resource allocation should, too. Plan for regular updates to the resource allocation process as appropriate to the size of the resources you are allocating and your agency capacity. The input-gathering (above) should be part of the update process so that stakeholders know they will have an opportunity to influence future allocation rounds. Frequent iteration provides opportunities for learning, so that allocation can get more effective and efficient over time.

## Throughput

The most effective programs over time will have a regular output of funds to applicants and from applicants to completed projects. Achieving that requires awarding funds to applications for projects that are ready to begin and that win the competition as structured. Avoid holding funds aside for a "must-do deal" that is still far away from being ready. If it is really must-do but is not ready in this round, it can get done in the next round. Sticking to a readiness criterion to assure throughput often requires standing up to political pressure, and a strong commitment from elected and appointed officials to following best practices is important.

### Example of Iteration: Low Income Housing Tax Credit Allocation

Each year, every state must issue a Qualified Allocation Plan (QAP) that sets out the process for allocations of federal tax credits for affordable rental housing. Most states take the opportunity to update their QAP every year to better target the resources and respond to stakeholder input. Over the more than 30 years of the program history, QAPs have gotten much more sophisticated and effective, on the whole. States learned over time what minimum requirements they can set, how to encourage the highest quality applications, and how to make the process move more efficiently. They have also adapted to sudden changes in market conditions, such as the recession and financial crisis in 2008.

Throughput is most relevant for recurring, rather one-time, funding sources. However, a community can structure a one-time allocation of funds into a multiyear allocation process that still allows some amount of regularity, predictability, and room for improvement.

## Alignment

State or local housing funds fit into a complex web of other federal, state and local housing programs. Making sure your funding allocation aligns with the other features of the funding environment will give it the best chance of success.

If your funds are designed to fill the gap between total project cost and other subsidies, such as Low Income Housing Tax Credit financing, work with that aim explicitly. Consider subordinating to the terms of the primary subsidy to avoid duplicative compliance monitoring or conflicting requirements. Doing so can also save you from having to write unnecessary legal documents, such as a use restriction or income targeting agreement, for projects. Also consider aligning with the existing allocation process for the primary subsidy, so that applicants can fill out one underwriting pro forma, submit one set of financial statements and otherwise avoid duplication.

If your funds are a stand-alone source designed to be the primary subsidy for projects, align the process to the type of property you hope to attract. Avoid conflicting with other sources, such as the state QAP, so that applicants have time and attention to devote to your application process.

## Conclusion

Generating funding from within your community for affordable housing is an accomplishment in itself. By thinking about these principles when allocating those resources, you can get a head start by building on the experience of other communities that have done similar work. Developing a predictable, transparent and efficient process for allocating resources will help build ongoing support and help produce much-needed affordable housing. For more resources on specific topics, visit [www.nhc.org](http://www.nhc.org).

### Example of Alignment: Massachusetts One-Stop Application

The Commonwealth of Massachusetts developed a One-Stop Housing Application for rental developers seeking LIHTC, gap-filler loans, construction loans, permanent debt and more. Several public and private agencies rely on the application, including the Department of Housing and Community Development, MassHousing, Boston Department of Neighborhood Development, MassDevelopment, Community Economic Development Assistance Corporation and the Massachusetts Housing Investment Corporation. **Learn more.**

## About NHC and the Inclusive Communities Working Group

Everyone in America should have equal opportunity to live in a quality, affordable home in a thriving community. The National Housing Conference educates decision makers and the public about housing policies and practices to move housing forward together. NHC convenes and collaborates with our diverse membership of housing stakeholders including tenant advocates, mortgage bankers, nonprofit and for-profit home builders, property managers, policy practitioners, real estate professionals, equity investors and more to advance our policy, research and communications initiatives to effect positive change at the federal, state and local levels. Founded in 1931, we are a nonpartisan, 501(c)3 nonprofit organization.

NHC convenes the Inclusive Communities Working Group as a peer learning network for state, local and regional officials in areas of high and rising housing cost. Its aims to help localities become more inclusive using best practices in housing policy from around the country in a practical, nonpartisan forum that gives local housing solutions more national prominence.

