Affordable housing financing is the process by which a public or private entity secures capital to pay for the building, maintenance, and/or renovation costs of affordable units. Affordable housing by its very nature cannot be sustained without financial subsidy. This is because tenant rents do not cover acquisition, construction, and operational costs. Through a patchwork of public and private financing mechanisms, local and federal entities operate a resource pool to fill that funding gap. These financing mechanisms may be targeted at lowering construction, renovation, or maintenance costs to make affordable housing development a financially viable option for housing authorities and private developers alike.

**HOW AFFORDABLE HOUSING FINANCING WORKS**

**Direct funding** for affordable housing gets applied to the initial cost of a project through government-funded subsidies. Because of lengthy and expensive application and review processes, direct funding sources are typically only accessible to developers.

**Indirect funding** methods aim to lower the month-to-month cost of housing. These include government funded energy efficiency programs, maintenance funds, income-based utilities payment agreements, tenant rights enforcement, and tenant-landlord relationship building. Indirect funding methods may also require significant capacity to implement.

**Tax credits and incentives** generate funding for affordable housing through programs like Tax Increment Financing (TIF), Mixed-Finance Public Housing, New Market Tax Credits (NMTC), and Opportunity Zones.

**Land value capture** financing tools subsidize affordable housing through land use and development policy. These programs include transit-oriented development and inclusionary zoning.

**Tax Increment Financing (TIF)**

Tax Increment Financing (TIF) is an economic development tool that uses anticipated increases in property tax revenue to subsidize a particular development project.

- **TIF** funding is authorized at the state level and administered locally. Regulations vary from one jurisdiction to the next.
  - In order for TIF funds to be collected and distributed, a project must satisfy a “but for” test, meaning “but for TIF this project would not be feasible.”
  - TIF is a value-capture tool, allocated based on property tax increases in the area surrounding the development called a “TIF district.” TIF district boundaries are decided by local housing authorities.
  - Applying for TIF financing is expensive. While review process fees vary, in Minneapolis for example, costs include a $3,000 application fee and a $10,000-$15,000 project analysis fee.
  - Housing TIF agreements stipulate that direct funding will be applied to a project in exchange for guaranteed affordability for up to 25 years.
  - TIF funds are available for all types of projects including new construction and housing renovation. TIF is often used in combination with other financing tools.
AFFORDABLE HOUSING FINANCING THROUGHOUT HISTORY

As public housing has faced systematic disinvestment over time, the nonprofit industry and private sector stepped in. The result is a complex patchwork of financing that is increasingly grant-based and dependent on public-private partnerships. With insufficient funding from the federal level moving through local housing authorities, affordable housing developers face the burdensome task of aligning several types of funding at once from private contributions, federal grants, bank loans and more in order to realize a single project.

Housing and Park Financing Partnerships

Governed by separate agencies or even different elected bodies, there is very little coordination between housing and parks financing. There is a growing push to integrate these financing mechanisms to reflect how parks and housing impact one another. Implementing a joint financing strategy will require leveraging different funding access points for mutual benefit and sharing technical knowledge across sectors. Potential models include expanding the scope of public and grant-funded green infrastructure financing to contribute to nearby affordable housing projects or using affordable housing maintenance dollars to develop green space next to affordable housing units.

Affordability Expiration Dates

Traditional financing programs do not have safeguards to ensure long-term community affordability. Direct funding programs mandate that developments maintain affordability ranging anywhere from 10 to 25 years after construction. Once that time period expires, however, a publicly subsidized project can easily convert its affordable units to market-rate.

CONSIDERATIONS

Access and Technical Assistance

Securing funding can include lengthy and expensive application processes, making it more difficult for small community-based housing developers to access. While large developers have entire teams of managers and lawyers dedicated to navigating the logistical layers of financing their projects, without adequate technical assistance non-profit housing developers and under-resourced public agencies are at a disadvantage in competing for affordable housing dollars.

Limited Funding Pool

There are a finite number of affordable housing dollars available. This means that affordable housing projects have to compete with one another to access the capital necessary to turn a proposed project into reality. Through increasing scarcity and program complexity, affordable housing developers have to use significant capacity applying to multiple funding sources to piece together viable projects.

Profitability-Dependent

Financing programs such as TIF and Low-Income Housing Tax Credits (LIHTC) are restricted by profitability. This is true when profits are realized by both public and private entities. In the case of TIF, funds are generated through higher property taxes, thus incentivizing affordable housing development to simultaneously raise property values and threatening higher cost-burdens in the surrounding area. For LIHTC, affordable housing developments can only leverage the value of tax credits by selling them off to investors. These tax credits are often purchased by large financial entities like banks or venture capital firms who, in turn, receive substantial tax deductions.