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## AFFORDABLE HOUSING FUND

### House Bill 5303 with committee amendments

### House Bill 5304 as introduced First Analysis (5-30-00)

**Sponsor: Rep. William Byl**  
**Committee: Local Government and Urban  
Policy**

### ***THE APPARENT PROBLEM:***

According to information from the Community Economic Development Association of Michigan (CEDAM) and the Local Initiatives Support Corporation (LISC), virtually every community in Michigan must deal with the issue of affordable housing. Despite the tremendous economic growth of the 1990s, there are significant housing problems throughout Michigan, and in Detroit in particular. According to 1999 data from the U.S. Department of Housing and Urban Development, 43 percent of Michigan renters must pay greater than 30 percent of their incomes in order to afford a two-bedroom apartment at market rates. A worker earning the federal minimum wage (\$5.15 per hour) would need to work 87 hours per week in order to afford such an apartment, or, conversely, a worker would need to earn \$11.18 per hour for a standard 40-hour work week to afford such an apartment.

Further, estimates are that some 500,000 Michigan households are low income, meaning that they earn less than half of the country's median income. About 75 percent of these households (or 375,000 households) must pay more than half of their income for housing costs. This makes it nearly impossible for these families to save for longer-term investments like education or a down payment on a home. And, an estimated 41,000 Michigan families live in substandard housing with severe physical defects, often leading to health and safety problems for children, adults, and the elderly.

It is evident that the marketplace has not been able to provide safe, sanitary and decent housing at a low cost. Federal housing policies in recent years - the trend toward disassembling large public housing projects in favor of creating mixed-use developments - have had the effect of decreasing the number of available public housing units. Local governments have not been able to have much impact on the situation, either.

However, private nonprofit entities have emerged as leaders in increasing the supply of affordable housing. Organizations such as Habitat for Humanity, community development corporations, community action agencies, public housing authorities, and homeless shelters has been working to meet the housing needs of the low income population. These organizations report that demand far exceeds their ability to supply housing. They advocate the creation of a fund to help support and greatly expand their efforts. Further, the governor has proposed a \$25 million fund to be administered by the Michigan State Housing Development Authority to create such a revenue source.

### ***THE CONTENT OF THE BILLS:***

The bills would create an "Affordable Housing Fund" to be administered by the Michigan State Housing Development Authority (MSHDA). The fund would create a dedicated housing stream to fund housing development efforts for low income populations. House Bill 5303 is tie-barred to House Bill 5304.

House Bill 5304 would amend the State Housing Development Authority Act (MCL 125.1458 et al.) and House Bill 5303 would create a new act, the Michigan Affordable Housing Fund Act. The two bills contain similar provisions, creating the Michigan Affordable Housing Fund and a program to provide assistance from the fund to "eligible applicants" to develop housing for certain low income populations. A not-for-profit corporation, or a partnership consisting of a not-for-profit corporation and a for-profit corporation organized for the purpose of developing housing for low income persons (with the housing under the managing control of the not-for-profit corporation), would be eligible to obtain funds from the Michigan Affordable Housing Fund.

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Affordable housing fund. The fund would be created in the Department of Treasury, to be administered by MSHDA. The cumulative contributions made to the fund, less administrative expenses, would have to be appropriated annually solely for the purposes outlined in the bills. The state treasurer would credit to the fund all receipts, including dividends and interest on the investment of money in the fund and principal and interest payments from loans or agreements made from the fund; all proceeds received as a result of default of loans or agreements; all appropriations, gifts, or grants made to the fund; all fees or charges collected by the agency under the bills; and other revenue as provided by law. Any balance remaining in the fund at the end of a fiscal year would not revert to the general fund, but would remain in the fund for purposes of the bills.

Affordable housing program. Under the bills, MSHDA would be required to create and implement the Michigan Affordable Housing Program for the purpose of developing and coordinating public and private resources to meet the affordable housing needs of low income, very low income and extremely low income households. Money from the fund would have to be used to provide grants, mortgage loans, and other loans (including construction loans, bridge loans, and predevelopment loans) to applicants to develop housing. Loans could be provided to eligible applicants at no interest or at below market interest rates, with or without security. The targeted population would be:

- "low income households" (households whose adjusted gross income is between 50 and 60 percent of the median income);
- "very low income households" (households whose adjusted gross income is between 25 and 50 percent of the median income); and
- "extremely low income households" (households with an adjusted gross income of less than 25 percent of median income).

Funding could be used for multifamily housing that included units for the targeted very low income and extremely low income population as well as units for those who did not qualify. However, MSHDA would be prohibited from providing assistance for housing under the program unless the owner or manager agreed in writing not to evict tenants without "just cause," as that term is defined in Public Act 18 of the Extra Session of 1993, which governs housing facilities; and unless the housing was sold or rented with a deed restriction or other agreement that provided for the

recapture of some or all of the assistance provided under the program.

Money in the fund could be used to provide single-family or multi-family housing. It could be used for acquisition of land and buildings, new construction or rehabilitation of existing buildings, predevelopment and development costs, costs to preserve existing housing units, infrastructure and community facilities that directly support housing development, insurance, operating and replacement reserves, down payment and security deposit assistance, and supportive services. A portion of the allocations each year would have to be used to provide housing for homeless persons, those with physical and mental disabilities, and persons living in distressed or rural areas. Further, not less than 30 percent of the fund would be earmarked for projects that targeted extremely low income households and included, at a minimum, developing housing for the homeless, transitional housing, and permanent housing; and, providing security deposits, supportive services, and technical assistance to eligible applicants. A rental housing project supported by the fund would have to provide affordable housing for households earning no more than 50 percent of median income. And, a home ownership project assisted by the fund would have to provide affordable housing for households earning no more than 60 percent of median income.

MSHDA would be required to provide funding for projects with 50 units or less, and provide incentives to encourage economically diverse housing developments that respond to community priorities. Further, the authority could provide funding for projects with more than 50 units in certain circumstances, as determined by the authority.

Allocation plan. MSHDA would develop an allocation plan each year, based on annual priorities set by the agency according to the provisions of the bills. The allocation plan would have to explain how MSHDA would identify, select, and finance projects, and how the agency would provide advice and guidance to applicants for financing. The plan would include a list of organizations eligible to receive funds, any preferences for identified special population groups, any geographic targeting in designated revitalization areas, and the allocation formula, which would be based on the number of people in poverty in a geographic area, the level of housing distress in that area, and any other factor that supports the need for affordable housing. Further, the legislation would require MSHDA to hold public hearings on its annual allocation plan before spending money, and would

allow the agency to make minor changes to the plan as necessary after the hearings.

The agency would be required to promulgate rules under the Administrative Procedures Act to implement the program, including rules providing for the terms and conditions under which funds provided could be recaptured.

Annual report. MSHDA would be required to report annually to the governor and the legislature, summarizing the expenditures of the fund, and including a description of the eligible applicants that received funding, the number of housing units that were produced, and the income levels of the persons served.

### ***FISCAL IMPLICATIONS:***

In his executive budget proposal for fiscal year 2000-2001, the governor recommended the creation of a \$25 million affordable housing fund, using TANF (temporary assistance for needy families) funds. (Executive budget proposal, 1-27-00)

### ***ARGUMENTS:***

#### ***For:***

Reportedly, Michigan is one of only 13 states in the nation without a dedicated revenue stream for affordable housing. Housing costs typically consume more of a family's budget than any other single item. For low income people, housing often consumes half or more of the family's budget, leaving little to pay for other necessities such as food, clothing, transportation and so forth. High housing costs prevent low income families from saving towards longer term investments, like education or home ownership, that are key to accumulation of wealth.

The bills would create a new fund, to be administered by MSHDA, that would be used to increase the supply of affordable housing units in Michigan. It would target low income, very low income, and extremely low income families. The fund would be used to provide support to nonprofit organizations, particularly those already engaged in providing decent housing for low income families. These organizations have, by their ongoing efforts, proven their worth and are deserving of significantly expanded support from state government. The new funds could be used by these organizations to leverage other available public and private funds, further increasing the impact of the spending. These community organizations currently use

grants, subsidies, charitable contributions, and "sweat equity" to sell housing units below their actual costs. The new fund would supply additional subsidy dollars, so that the sales price or rental rate could reach lower income families or so that more units of affordable housing could be created.

### ***POSITIONS:***

Written testimony in support of the bills was submitted by the Community Development Advocates of Detroit. (5-11-00)

Representatives of the following testified in support of the bills (5-11-00):

- The Community Economic Development Association of Michigan;
- Habitat for Humanity of Michigan;
- The Michigan Homebuilders Association; and
- The Local Initiatives Support Corporation (LISC).

Analyst: D. Martens

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.