Financing the Housing Trust Fund: Revisiting an Old Dilemma

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The Housing Trust Fund was created in 1991 pursuant to a Constitutional amendment passed in 1990. Finding a permanent revenue source has been an issue since the fund's inception. This paper revisits the four potential revenue sources originally identified by the Governor's Advisory Committee on Funding the Housing Trust Fund. Current revenue estimates are made in the paper and compared with the Advisory Committee's estimates. The paper also analyzes the four options and provides useful background information.

Introduction

In November of 1992, the Governor's Advisory Committee on Funding of the Housing Trust Fund (GACFHTF) issued its final report. The report, titled "Securing a Fundamental Community Asset: The Case for State Leadership in Affordable Housing," explored the topic of financing Ohio's Low- and Moderate-Income Housing Trust Fund (Housing Trust Fund). Among other items, the report recommended four potential revenue sources. Since that time, however, none of the GACFHTF's recommendations have been implemented.[1] Instead, a biennial scramble replays itself during every budget as a funding source for the Housing Trust Fund is sought. This process has resulted in variegated and temporary approaches to financing the Housing Trust Fund and has created problems concerning long-term planning and funding stability.

In this analysis, the focus remains on how to finance the Housing Trust Fund. Specifically, this paper examines how the recommendations made by the GACFHTF in 1992 compare to today. Are the 1992 GACFHTF recommendations still viable? How much revenue can these sources generate per year today? Have the estimates changed over time? What implementation problems and issues confront these recommendations today?

What is a Housing Trust Fund?

Several definitions for a housing trust fund exist. However, the generally accepted broad interpretation refers to housing trust funds as a permanent, renewable financing source that is dedicated to assisting low- and moderate-income individuals with their housing needs.

More than just a one-time injection of funds or a temporary funding mechanism, a housing trust fund *ideally* operates with a clearly defined annual revenue source. Funding should exist outside of the general revenue fund

[1] Another committee, essentially an off-shoot of the GACFHTF committee, was established by legislation in Am. Sub. H.B. 152 in July 1993. Their final report was issued in December of 1994. Unsatisfied with the lack of progress in finding a permanent revenue source for the Housing Trust Fund, this committee's charge was to make recommendations regarding the "creation of additional funding sources for the Low-and Moderate Income Housing Trust Fund." Comprised of private and public sector individuals, the group almost unanimously supported raising county recorder fees but held mixed support for raising the real estate conveyance fee. All other potential revenue sources did not have broad support.

where annual appropriation changes can be made.

The type of assistance that housing trust funds provide extends across a range of activities. New housing construction, rehabilitation of existing housing or various home ownership programs are the most common.

Why Housing Trust Funds?

Housing trust funds were created, at least in part, to help counter reductions in federal aid.[2] Specifically, cuts in the Department of Housing and Urban Development led to a deficiency in state and local government housing funds.[3] According to Connerly,[4] federal funding for housing programs fell from $28.4 billion just prior to 1980 to $11.1 billion in 1990. This $17 billion decrease played a definitive role in states' decisions to find alternative revenue sources for housing and ultimately led to the creation of housing trust funds.

Another factor that led to the adoption of housing trust funds was the changing dynamics of homeownership. In Ohio, and across the country, homeownership became increasingly out of reach for many people. Stagnant wage growth and increasing housing costs (especially land) created this condition.[5] Compounding the problem has been the loss of low-income housing. Demolition and abandonment are the leading contributors. In fact, according to the GACFHTF report of 1992, 70,000 affordable housing units were lost in Ohio between 1980 and 1990.

The Ohio Housing Trust Fund

Establishment

The Ohio Housing Trust Fund was created as a result of a statewide referendum in 1990. The affirmation of this referendum made housing a public policy issue. Prior to this time, state and local governments were limited in their ability to participate in public-private partnerships for housing.

Because the statewide referendum only established the framework upon which housing was to become a public policy issue, implementing legislation was needed. In October of 1991, H.B. 339 effectively put into law the referendum. This legislation created the state housing trust fund and established various committees.

One of the committees, the Governor's Advisory Committee on Financing of the Housing Trust Fund, examined the overall goal of the trust fund. As described by the GACFHTF, the primary purpose of the Housing Trust Fund was to serve very low-income Ohioans in their housing needs. Their objective was to reduce Ohio's "housing need" by 50 percent over a ten year period. As reported by the GACFHTF, "housing need" was defined in three ways.

1. Cost Burden
2. Inadequate Housing
3. Overcrowding

A cost burden consisted of a situation where a household has an annual income of less than $15,000 and pays more than 35 percent of their gross income for housing.

Inadequate housing was described in terms of structural deficiencies. These were generally grouped according to the age and value of the structure. In addition, housing that lacked basic plumbing or running water was included.

The final housing need, overcrowding, pertained to having more than one person in a room. For example, a household with 4 people and 3 rooms would be considered overcrowded.

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[2] Charles E. Connerly, "A Survey and Assessment of Housing Trust Funds in the United States," *Journal of the American Planning Association* 59 (Summer 1993) : 306.

Governor's Advisory Committee on Funding of the Housing Trust Fund Final Report to the Governor, "Securing a Fundamental Community Asset: The Case for State Leadership in Affordable Housing," (November 1992) : 15.

Mary K. Nenno, "National Housing Policy: A National Policy Perspective on Three Strategic Issues," *Public Administration Review*, 51 (Jan./Feb. 1991) : 86.

[3] Dana Ashley, "Constructing Local Solutions: Affordable Housing," National Conference of State Legislatures, 1991 : 2.

[4] Connerly, Ibid.

[5] Mary K. Nenno, Ibid., 87.

Operation

Operated by the Department of Development and administered by the Ohio Housing Finance Agency (OHFA), the Ohio Housing Trust Fund is essentially a loan and grant program that assists low- and moderate-income people achieve affordable housing. State statute requires that revenues from the fund meet certain income-targets. Overall, 75 percent of the Housing Trust Fund revenue is set aside for projects serving people at 50 percent of the county median income level or below. The remaining funds are targeted for households with incomes between 50 percent and 80 percent of the county median income level. Special preference, however, is given to projects that assist those households at 35 percent of the county median income level or below.

Revenues received by the Housing Trust Fund are used to leverage other funds and to provide a continuous stream of money back into the Fund. Housing Trust Fund revenues can be used to match federal housing assistance programs, to leverage private investment dollars, to provide below-market or market-rate loans to various institutions and to provide grants to local governments.

Requests to use Housing Trust Fund money come from a variety of institutions. Local governments (municipalities, counties, townships), local housing authorities and nonprofit organizations, as well as, private developers and lenders all compete for these dollars. Both local governments and private lenders and developers can receive loans, but only local governments, housing authorities and nonprofit organizations are eligible to receive grants.

Status of Housing in Ohio

Accounting for the number of people facing a housing-related problem (i.e., homelessness, financial burden, overcrowding, lack of plumbing and electricity) in any period of time is a difficult task. One venerable source of housing information, though, comes from the United States Bureau of the Census. Every decade the Bureau conducts a universal household survey in the United States and collects data on everything from housing to employment. The last such census, conducted in 1990, reveals a lot about the status of housing in Ohio.

It was determined by the Census Bureau that 521,128 households were below the poverty line in 1990. This represents approximately 12 percent of Ohio's population. Generally speaking, the number of households below the poverty line can indicate the severity of housing problems. All other things equal, the greater the number of households in poverty, the greater the housing problem.

Other useful information related to housing in Ohio can also be obtained from the Census Bureau's data. For instance, in 1990, 481,557 (37.2 percent) of all rental-occupied housing in Ohio paid 30 percent or more of their household income for rent. Typically, paying 30 percent or more of income to rent creates financial problems. In fact, the Department of Housing and Urban Development defines "affordable housing" as housing where the occupant(s) pays no more than 30 percent of their gross income for housing costs, including utilities. Through association, therefore, most of these 481,557 households in Ohio can be declared as facing a housing crisis.[6]

Slightly more recent data provides another reference source concerning the

[6]Not all of these households face a housing problem. Some, while paying more than 30 percent of their income to housing, may earn a significant amount of income which allows them to meet their other financial needs without being confronted by a housing problem.

Table 1			
Housing Trust Fund			
Fiscal Year	Appropriation	Expenditure	Fund Balance (as of 6/30)
1996	$13.0 million	$3,904,436	$11,948,740
1995	$3.0 million	$3,792,098	$2,356,211
1994	$3.0 million	$3,718,067	$3,179,117
1993	$2.5 million	$1,079,051	$88,001
1992	$2.5 million	$616	$4,385

status of housing in Ohio. The Governor's Advisory Committee on Financing of the Housing Trust Fund reported in 1992 that 500,000 Ohio households, including the non-poor, pay 35 percent or more of their income toward rent. They also indicate that nearly 300,000 Ohio housing units are in need of repair or rehabilitation and that approximately 10,000 affordable housing units are lost each year to demolition, conversions or abandonment. Further, more than 140,000 people were reported as homeless sometime during 1990.

History of Financing the Ohio Housing Trust Fund

Since its inception, the Housing Trust Fund has operated without a permanent funding source. In each of the last three bienniums, a different temporary funding source has been tapped. The initial injection of revenue, totaling $2.5 million in fiscal 1992 and the same amount in fiscal year 1993, came from the Division of Unclaimed Funds in the Department of Commerce. During the following biennium (FY 1994-1995), the state's General Revenue Fund provided the financing for the Housing Trust Fund. For each fiscal year, $3 million was appropriated. Finally, in its most recent funding round (FY 1996-1997), the Housing Trust Fund received revenue from two temporary sources within the state operating budget. The first came from the Budget Stabilization Fund (BSF). Temporary law language in Am. Sub. H.B. 117 of the 121st General Assembly (the budget act) provided for the *second* $10 million in interest income from the BSF in each fiscal year to go to the Housing Trust Fund. The second source from Am. Sub. H.B. 117 provided funds from the Low- and Moderate- Income Housing GRF line item in the Department of Development. Again, temporary law language included in the budget act required the transfer of $3 million in each fiscal year to the Housing Trust Fund. From both sources of revenue, the Housing Trust Fund will receive $13 million per fiscal year.

How Other States Finance Their Housing Trust Funds

Housing trust funds are a relatively new financing mechanism. Most housing trust funds began only since the early 1980's. Due to their recent advent, many varied approaches to financing housing trust funds exist.

According to Connerly, at least 66 housing trust funds exist in the United States.[7] This number reflects state, county and other municipality housing trust funds. Overall, at least 22 states, including Ohio, have a housing trust fund. Another 31 municipalities and 7 counties also operate a housing trust fund. In Ohio, the cities of Cleveland, Dayton and Toledo operate their own housing trust fund. Given the increasingly higher profile housing trust funds have been receiving over the past decade, it is likely the figure reported by Connerly in 1993 understates the actual number of housing trust funds in operation today.[8]

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[7] Charles Connerly, Ibid., 307.

[8] Ibid.

Most states base their housing trust fund financing on real estate or housing sources.[9] The real estate conveyance fee, one of the more popular, is used by seven states to some degree (IL, ME, NV, NJ, SC, TN and VT). Depending upon the change in the real estate conveyance fee and the state housing market, the amount of revenue generated from this source can be significant. The State of New Jersey, for example, increased their real estate conveyance tax by $0.75 per $500 for property in excess of $150,000 and annually raises $12.5 million.[10] Other states, such as Maine, chose to expand their real estate conveyance tax base rather than raise the tax rate. They opted to include both buyers and sellers of real estate in their conveyance tax. While providing for 45 percent of the tax gain for the housing trust fund, the State of Maine effectively doubled the annual amount of revenue collected. From this new influx of revenue, the State of Maine was able to provide between $3 and $7.3 million annually to their housing trust fund.

As noted, not every state relies exclusively on a real estate conveyance fee to finance their housing trust fund. Tennessee, for instance, incorporates a mortgage transfer tax increase, income from their Housing Program Reserve Fund and State Housing Finance Agency reserves with an increase in the real estate conveyance fee to finance their housing trust fund.[11] Other housing trust fund revenue sources are also utilized. In one form or another, Oregon, Minnesota, Idaho and Washington collect interest income from deposits or accounts. Both Washington and Minnesota collect the interest on real estate escrow accounts, Oregon collects the interest on deposits held by certain real estate licensees and Idaho collects the interest on real estate broker trust accounts. The states of Delaware and Florida have implemented a mortgage recordation fee to finance their respective housing trust funds and South Carolina appears to have instituted a surcharge on their estate tax.

Even with these and other less conventional approaches to financing a state housing trust fund, several states have not established a permanent financing source. Georgia, Hawaii and Indiana are examples. These states, like Ohio, have gravitated toward temporary or one-time financing sources.

Recommended Funding Sources

As part of the process of finding a revenue source for the Housing Trust Fund, the GACFHTF first determined the aggregate need for housing assistance. According to the GACFHTF's initial cost projections, a total of $7 billion over ten years would be needed to alleviate the housing burden of one-half of all Ohioans. The GACFHTF assumed that only 30 percent of this amount ($2.1 billion) would come from the state. The remainder of funds would come from a combination of sources including local government and private sources. Acknowledging the limits of state government to meet even this target, the GACFHTF determined that $50 million per year in state revenue could still significantly affect the housing situation in Ohio. With these figures in mind, the GACFHTF started their process of examining potential revenue sources.

More than twenty funding sources were originally examined by the Governor's Advisory Committee on Financing of the Housing Trust Fund. In order to winnow the list, the GACFHTF established three criteria. First, the funding source had to be related to housing or real estate in general. Because the Housing Trust Fund would assist low- and moderate-income

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[9]Ibid., 309.

Governor's Advisory Committee, Ibid., 21.

[10]Connerly, Ibid., 311.

[11]Governor's Advisory Committee, Ibid., 30.

persons with housing, the revenue source was to be tied to housing or real estate. Just as gas taxes are tied to highway financing, the GACFHTF determined that financing for the Housing Trust Fund should come from a related source. The second criteria the GACFHTF selected was revenue generation ability. Specifically, the funding source would ideally produce between $10 and $20 million annually. The GACFHTF stated that a revenue source that generated less revenue would not significantly impact the housing needs of Ohio. Third, the GACFHTF looked for a funding source that could be effectively and efficiently administered. Both principles of administrative capability were important. On the one side, the GACFHTF wanted a revenue source that would not create significant administrative expense for the state or local governments. On the other side, the GACFHTF logically wanted a revenue source that would not operate like a leaky bucket. That is, a revenue source that loses a significant portion of its revenue due to collection difficulties would not prove efficient and probably would not be effective.

Meeting each of these three criteria was difficult. Only four of the more than twenty original recommendations succeeded. They were: real estate conveyance fee, surcharge on estate tax, interest on tenant security deposits and the mortgage recordation fee. All the other revenue sources did not meet one or more criteria.

In its final report, the GACFHTF supplied a brief analysis of the four revenue sources that met all three criteria. Included in this analysis, the GACFHTF presented an estimation of the amount of revenue that each source could generate per year.

Revisiting the Recommended Financing Sources/ Policy Options

Finding an efficient, easily administered and housing-related revenue source was the goal of the 1992 Governor's Committee on Funding of the Housing Trust Fund. As noted, four sources were determined to meet these requirements. Because the revenue estimates by the GACFHTF were completed four years ago, this paper re-examines them using updated statistical data. Current revenue estimates for the four original recommendations and legislative and environmental concerns about implementing them are also covered.

Real Estate Conveyance Fee

Imposed by county auditors when the title to real property is transferred from one owner to another, the real estate conveyance fee generates millions of dollars annually for counties. As recently as calendar year 1993, counties collected more than $21 million from the mandatory 1 mill real estate conveyance fee and an additional $35.5 million from the permissive conveyance fee of up to 3 mills. These fees are generally paid at closing by the transferor.

The original revenue projections for the real estate conveyance fee looked at increasing the real estate conveyance fee in different increments. In re-examining the use of the real estate conveyance fee as a revenue source for the Housing Trust Fund, data from the Ohio Department of Taxation was used. This information is provided alongside the 1992 GACFHTF estimates in Table 2 and is labeled "1996 LBO."

Basing the calculations upon information from calendar year 1986 to 1994, LBO determined that the estimated revenue gains over this period closely matched the GACFHTF's projections made in 1992. On average, revenues would increase between $9.3 and $74.7 million per year. This compares to the original estimates of $9.8 to $70.4 million per year.

Like the GACFHTF, the LBO calculations incorporated the total amount of taxable real estate transferred in the revenue estimates. However, the LBO determined this figured based upon the amount of mandatory fees collected.[12] Using this approach, it was estimated that the total amount of real estate transferred between 1986 and 1994 ranged from $16.4 to $23.4 billion per year. On average, more than $18.6 billion was transferred over this period.

Because the difference in revenue projections between the GACFHTF and the LBO is relatively small, two statements can be made. First, the real estate conveyance fee can be tapped as a stable revenue source for the Housing Trust Fund. Over the course of nine years (1986-1994), the estimated annual revenue amount generated from a 3 mill increase in the real estate conveyance fee has never dropped below $49 million. In fact, had a 3 mill increase in the real estate conveyance fee been in effect for the last four years examined, the amount of revenue collected would have steadily increased from $49 million to $70.3 million. Choosing any one of the other conveyance fee increases also indicates similar steady raises. Second, the amount of revenue that can be generated from raising the real estate conveyance fee is significant. Following the GACFHTF recommendation that at least a $50 million annual revenue source be used for the Housing Trust Fund, a 3 mill increase in the real estate conveyance fee meets this objective.

Legislative/Environmental Concerns

Table 2

Raising the Real Estate Conveyance Fee (Annual Revenue Estimates)

Fee Increase	1992 GACFHTF	1996 LBO
One-half mill	$9.8 million	$9.3 million
One mill	$17.6 million	$18.7 million
Two mills	$35.2 million	$37.3 million
Three mills	$52.8 million	$60.0 million
Four mills	$70.4 million	$74.7 million

Current law specifies that county auditors impose and collect a mandatory one mill real estate conveyance fee. An additional tax levied by the county commissioners of up to three mills can also be imposed. Because an increase in the real estate conveyance fee would be earmarked for use by the Housing Trust Fund, legislative action would be needed. Specifically, language would have to direct where the additional revenue from the conveyance fee would go. Although not necessarily required, language providing for administrative reimbursement to county auditors could also be included. Since county auditors, the collectors of the real estate conveyance fee, would remit the additional conveyance fee to the state, administrative costs will likely occur to them. To offset these costs, language allowing the local government collection agent to receive a percentage of the revenue collected can be incorporated.

Although legislative action would be the final step in utilizing the real estate conveyance fee to fund the Housing Trust Fund, several intermediate lobbying efforts may underscore the final result. Given that increasing the real estate conveyance fee will increase housing transaction costs, some public concern about rising house costs may be made. However, because the average increase will generally be minimal, the effect on housing construction and sales will be small. Stated in dollars and cents the estimated average real estate value transacted in 1994 was $85,122.

[12] The GACFHTF reached their revenue estimates by multiplying the additional levy by the total amount of taxable real estate transferred.

Increasing the real estate conveyance fee one mill, therefore, will increase the transferor's conveyance fee by $85.12. Similarly, a two mill increase will increase the transferor's conveyance fee by $170.24 and a three mill increase by $255.36. Because these increases only represent a fraction of the total real estate value, real estate transactions would only be slightly effected.

Estate Tax

A surcharge on the estate tax was proposed as another alternative. As currently administered, the estate tax is placed on a resident decedent's real, tangible personal and intangible property. Several graduated rates apply. For example, decedent's with estate values below $40,000 pay a 2 percent tax while estate values greater than $500,000 pay a flat fee plus 7 percent of the value greater than $500,000. Several exemptions also apply. These include a marital deduction, charitable deductions, funeral expenses deduction, unpaid claims deduction and unpaid mortgage deductions. In addition, a $500 tax credit is applied to all estate taxes.

Table 3
Estate Tax Surcharge: Estates Valued at More Than $500,000

Year	Number	Tax Paid
1987	871	$59,729,719
1988	1,088	$73,392,034
1989	1,363	$87,648,617
1990	1,310	$76,527,050
1991	1,384	$82,741,512
1992	1,683	$101,482,647
1993	1,661	$94,888,536
1994	1,796	$103,052,356

Source: Ohio Department of Taxation Annual Reports

The GACFHTF examined placing a surcharge on the estate tax and determined that it would fit their three criteria. In determining the amount of revenue to be generated by a surcharge on the estate tax, the GACFHTF examined two scenarios. First, they proposed establishing a 15 percent flat surtax and second, they looked at establishing a two-tier surtax system. In the flat surtax proposal, a uniform across-the-board surcharge of 15 percent was proposed. This estate tax increase would apply equally to all estates regardless of the value of the property. For example, an estate valued at $75,000 and one valued at $500,000 would both pay an additional estate surcharge of 15 percent. Of course, a flat surtax proposal leads to questions about equity. Is it fair for an estate valued at $75,000 to pay the same surtax rate as another with a $500,000 value? To circumvent, or perhaps implicitly answer this question, the GACFHTF also looked at establishing a graduated estate surtax. Under this situation, descendants would pay a surcharge related to the value of their estate. The progressivity of this proposal was fairly limited. The GACFHTF only examined establishing surtax rates for estates valued above or below $500,000. Estates valued above $500,000, with the GACFHTF's proposal, would pay an additional surtax of 28 percent while those estates valued below this amount would pay an additional 7.5 percent. The GACFHTF calculated the revenue gain from both scenarios and determined that each would generate $25 million annually. Even though these calculations were made more than four years ago, the LBO revenue estimates closely resemble these figures.

After examining information from the Department of Taxation over fiscal years 1987 to 1994, it was determined that, on average, a 15 percent flat surtax would have generated $23.2 million per year and a 7.5 percent and 28 percent two-tiered surtax would have produced $29.0 million per year. Both estimates vary slightly from those made more than four years ago. In the earlier estimates, the GACFHTF speculated that each of these scenarios would generate $25 million annually.

One possible explanation for the variation in revenue estimates from the two-tiered structure resides with the number of estates valued at more than $500,000. Since 1987, the number of estates valued at more than $500,000 has increased 106 percent. Likewise, estate tax revenue generated from these estates has increased 73 percent. Since the revenue estimates calculated in 1992 probably did not factor in a significant increase in the number of upper-end estates, current higher revenue estimates may, as a result, more accurately reflect this trend.

Legislative/Environmental Concerns

Under present state statute, estate tax revenues are divided between the state and the local government in which the tax originated. Specifically, 64 percent of the gross estate tax is retained by the local government and the remaining 36 percent, after deducting any administrative expenses, is remitted to the state General Revenue Fund. Because the revenue estimates for the surcharge on the estate tax are based upon all revenue going to the Housing Trust Fund, legislation changing the distribution of this revenue source would be needed. This means that legislation both implementing a surcharge on the estate tax and approving the distribution of the revenues to the Housing Trust Fund would be required.

Concerns about administrative costs remain limited with the estate tax surcharge. The cost of administering this surtax would likely be minimal for local governments and the state government since a current system for collecting the estate tax and transferring a portion to the state already exists.[13]

Although a degree of progressivity can be maintained with a two-tiered estate surtax, the bottom line is that descendants will have to pay higher estate taxes. In 1994, for example, the average taxable estate value was $193,859. With a two-tiered increase in the estate tax, this would mean that the average estate would pay an additional $1,188. Combined with the existing estate tax an average estate would incur $9,106 in total estate taxes.

County Recorder Fees

Another potential revenue source for the Housing Trust Fund is the county recorder fee. Presently, each county has a recorder's office that records certain documents and collects fees on these transactions according to state law (Revised Code Chapter 317). Most of the documents filed are either liens, deeds or mortgages. County recorder offices also keep records on powers of attorney and plats. Each one of these transactions is assessed a fee at the time it is filed. The fee structure is currently $14 for the first two pages and $4 per page thereafter. All revenue collected by a county recorder's office is deposited in that county's general fund.

The annual amount of revenue generated by raising the recorder fee depends upon how much the fee is raised and which documents incur the additional charge. The GACFHTF examined raising the recorder fee two ways — on all transactions and on mortgage-only transactions.

To arrive at the first revenue estimate, the GACFHTF surveyed two county recorder's offices — Cuyahoga and Hamilton. Using information from these two counties they inferred that 2.6 million documents (transactions) were annually filed at all county recorders

[13] Governor's Advisory Committee, Ibid., 23.

Table 4a

County Recorder Fee Increase Per Document (All Transactions)

Revenue Gain	1992 GACFHTF	1996 LBO
$10 million	$3.85	$3.99
$20 million	$7.69	$7.98
$30 million	$11.53	$11.97
$40 million	$15.38	$15.96

Table 4b

County Recorder Fee Increase Per Document (Mortgage-Only Transactions)

Revenue Gain	1992 GACFHTF	1996 LBO
$10 million	$7.69	$11.82
$20 million	$15.38	$23.64
$30 million	$23.08	$35.47
$40 million	$30.77	$47.29

offices in Ohio. Next, the 1992 report determined various fee increases that would correspond to certain revenue gains. The GACFHTF estimated that the per transaction fee at a county recorder's office would have to increase $15.38 in order to raise $40 million annually for the Housing Trust Fund.

In reexamining the revenue potential from raising county recorder fees, the LBO conducted a statewide survey of all county recorder offices. Response from the mail survey was quite good. Almost three-quarters of the counties (74 percent) responded. However, from these responses nine were discarded because they were either missing requested information or did not precisely respond to all of the questions. Still, this left 56 counties.

From the information provided by these 56 counties, projections concerning the number of transactions at all county recorder offices were made. It was estimated that among all eighty-eight county recorder offices, slightly more than 2.5 million transactions were conducted. This represented approximately 8.9 million pages. From these transactions county recorder offices collected between $43.6 and $48.9 million in calendar year 1995.

Since the GACFHTF also noted that subjecting every transaction to the additional fee may not stringently meet its criteria that each revenue source be related to housing or real estate, they also proposed subjecting mortgage-only transactions to a fee increase. In this case, the GACFHTF estimated that more than 1.3 million transactions statewide fit this classification. Because county recorder transactions only comprise a fraction of all documents filed, the per document fee increase required to raise the same amount of revenue as above, increased significantly. For example, to raise $40 million, the GACFHTF determined that the fee for each mortgage transaction would have to increase by $30.77, versus $15.38 for all transactions.

Information about mortgage filings at county recorder offices was also surveyed. Unlike the 1992 GACFHTF survey which estimated that more than one-half of all transactions conducted at county recorder offices were of the mortgage variety, the LBO survey revealed a figure of only 33.8 percent. This directly translates into a much higher per transaction fee increase for the scenario which only raised fees for mortgage transactions. As noted in Table 4b, LBO calculated that the transaction fee would have to increase by $47.29 in order for the Housing Trust Fund to receive $40 million annually. The earlier calculation completed by the GACFHTF in 1992 stated that the mortgage-only transaction fee would have to increase by $30.77.

In contrast to this disparity, the transaction fee increases estimated by LBO and the GACFHTF for *all* transactions more closely resembled each other. Both estimates figured that recorder fees would have to increase by about $15.

Legislative/Environmental Concerns

In order to direct additional recorder fee revenues to the Housing Trust Fund, legislation would be needed. Principally, the legislation would allow for the fee increase to be remitted to the state when collected by each county recorder's office. In order for this to happen, counties would have to closely track the amount of revenue that belongs to them and the amount that goes to the state. This could create additional administrative expenses for counties, especially if the additional recorder fee is only imposed on limited transactions (i.e., mortgage transactions). Under this situation, counties would have to track each transaction filed and determine whether the revenue should be remitted to the state. To prevent this from becoming a cost burden, language in the enabling legislation might include a provision allowing each county to retain a portion of the recorder fee increase. Fewer revenues would go to the state, but county concerns about "unfunded mandates" may be dissipated.

As with most fee increases, opposition will likely arise. Counties concerned about increased administrative costs may express concern. Others may cite increased housing costs and a heightened level of government bureaucracy. Depending upon how the recorder fee increase is established, the effect will probably have a limited financial effect on people filing documents. Assume, for instance, that only mortgage transactions will have to pay a fee increase and that an annual flow of $10 million to the Housing Trust Fund is the target. Since the average number of pages filed with a county recorder's office was determined to be 3.6, a $12 per page increase would cost a filer an additional $43.20. The increase would be less if all transactions were included. Accordingly, an average document filer would have to pay an additional $14.36 if all recorder transaction fees were raised.

Tenant Security Deposits

The last recommendation by the GACFHTF was to collect the interest income on tenant security deposits. With this revenue source, the state would collect all interest earned on tenant security deposits. By pooling all deposits, the GACFHTF determined that approximately $19 million per year could be generated from interest.

Although this revenue source met each of the three criteria established by the GACFHTF, one potential area of concern was raised — how to efficiently collect the interest income? With no present governmental system in place, collecting and pooling all tenant security deposits in Ohio is a daunting task. Even after exempting landlords that have four units or less, as the GACFHTF's proposal stated, the number of rental households in Ohio likely still exceeds one million. In fact, according to the U.S. Bureau of Census almost 1.3 million renter-occupied households existed in Ohio in 1990. Given the large number of tenant security deposits and the problem inherent in pooling revenue from varied sources, the GACFHTF failed to present specific details on how to handle these problems. The GACFHTF solution consisted of mentioning that a "state entity would . . . administer the new account" and enforce the collection of tenant security deposits.

In reexamining the revenue potential from collecting interest income on tenant security deposits, an estimate similar to the 1992 report's was reached. Using information from the 1995 U.S. Statistical Abstract and the

U.S. Bureau of Census Population Reports, LBO concluded that the average annual revenue would total approximately $22.8 million. This conclusion was reached by assuming that the average security deposit equals the average monthly gross rent.[14] Almost $4 million per year separated LBO's estimate from GACFHTF's.

During the time period examined (1989-1994) the annual revenue estimate fluctuated by more than $13 million. One of the key variables was interest rates. During the course of the years examined, the national economy had gone from a period of recession to one of sustained minimal growth. Along with this change, interest rates rose and then fell. Because it is assumed that security deposits will earn a rate of return according to the prevailing interest rates, the amount of revenue generated from this source will vary accordingly.

As noted by the GACFHTF, collecting and pooling tenant security deposits will require state administration. Whether a new state entity is assigned to the task or whether an existing agency is given this responsibility, new administrative costs will be incurred. The question is, how high will costs rise? Assuming that records on almost all tenant security deposits will have to be kept, that staff will have to enforce the collection of tenant security deposits and that a method of depositing and withdrawing money from a single account will have to be established for close to one million accounts, a reasonable administrative cost projection would be 10 percent of all interest income. Over the period examined, the annual average administrative expense would have totaled $2.3 million. With this appropriation amount, an office of around 30-40 people could operate. Therefore, the final net annual revenue projection from tenant security deposit interest income would be $20.5 million — nearly identical to the GACFHTF's estimate.

Legislative/Environmental Concerns

Because landlords would be required to remit tenant security deposits to a specified state account and potentially because a new state entity would be created, legislation governing these activities would have to be enacted. Current landlord law only deals with returning a tenant's deposit upon vacating the premises. State statute (Revised Code section 5321.16) requires a landlord to pay interest on a tenant security deposit when all of the following criteria are met: 1) the deposit exceeds $50 or one month's rent, whichever is greater; and 2) the deposit is held for more than six months. Since all tenant security deposits would have to be collected by a state entity, these provisions of law would have to be changed. In addition, if a new state agency is required or an existing one given expanded authority, legislation would also be needed.

Perhaps one of the other primary concerns about using interest income from tenant security deposits as a revenue source for the Housing Trust Fund is its volatility. Interest rates fluctuate daily and over the course of a year may rise and fall to a significant degree. Because of this, projecting the annual revenue generated from the interest income earned on tenant security deposits will be difficult. Since one of the reasons for finding a permanent, dedicated revenue source for the Housing Trust Fund is to be able to plan for future projects, relying on a highly cyclical revenue source probably is not for the best.

Another concern about using this revenue source is that it raises part of its money from those people the Housing Trust Fund seeks to help. Recall that one of the stated objectives

[14] Average monthly gross rent includes payments for utilities and services, such as garbage collection.

Table 5

Summary of Potential Funding Sources for the Ohio Housing Trust Fund

Funding Source	Revenue Basis	Estimated Revenues Per Year (1996 LBO)
1 Real Estate Conveyance Fee	One-half to four mill increase	$9.3 - $74.7 million
2 Estate Tax		
Flat tax	15%	$23.2 million
Two-tiered tax	7.5% & 28%	$29.0 million
3 County Recorder Fees		
- All transactions	$3.99 - $15.96 per doc. increase	$10 - $40 million
- Mortgage-only transactions	$11.82 - $47.29 per doc. increase	$10 - $40 million
4 Tenant Security Deposits	Interest from security deposits	$20.5 million

of the Housing Trust Fund was to assist individuals who face a housing burden. By taking interest income from low-income tenant security deposits, the population who will benefit from this program — low-income individuals — are the same ones who will also pay part of the cost.

Policy Options

In this paper, the issue of finding a viable financing mechanism for the Housing Trust Fund was explored. In particular, the four potential revenue sources first proposed by the Governor's Advisory Committee on Funding of the Housing Trust Fund in 1992 were again considered. These were the real estate conveyance fee, estate tax, county recorder fees and interest income on tenant security deposits. Because none of these recommendations have been implemented, this paper reexamined the revenue potential of these sources and then discussed any implementation problems.

Of the four revenue sources, the real estate conveyance fee, estate tax and county recorder fee were determined to exist as workable policy options. These three represent the most logical selections due to their relative ease of implementation, administration and revenue collection. In addition, each of these sources could produce millions of dollars in annual revenue for the Housing Trust Fund. Collecting the interest income on security deposits was not deemed an appropriate revenue source for the Housing Trust Fund. Too many administration problems and a highly volatile revenue source coupled to eliminate this option.

Finding a revenue source for the Housing Trust Fund that is fiscally and legislatively agreeable has been a long, difficult process. Since 1992, several committees and state budgets have examined this issue but have not decided on a permanent revenue source. Although temporary funding sources can provide the necessary revenue to operate the Housing Trust Fund, a permanent, dedicated financing mechanism would provide more funding stability and allow for longer-term planning. Locating a permanent revenue source, therefore, is at the forefront of solving the financing issue presently eclipsing the Housing Trust Fund.

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