

Affordable Housing in Memphis: Revenue Sources And Cost-Benefit Analysis

Prepared for:

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Memphis, TN

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FOUNDATION FOR HOME OWNERSHIP
The Housing Trust Fund Providing Affordable Solutions for Memphis
1998

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EXECUTIVE SUMMARY

The Affordable Housing Market

The need for affordable housing in Memphis is serious. Although there were 96,684 households (42% of total) earning less than 80% of the median income for Memphis, only 130 affordable housing units were built annually in the ten year period between 1986 and 1995. More recently, in 1995 only 27 out of a total of 4,273 housing units sold in the City were affordable (\$56,000 or less).

To compound the problem, the housing stock is becoming deteriorated and demolition has become necessary in many cases. A total of 20,000 units were demolished during the 20 year period between 1970 and 1990; and due to the sluggish housing market in Memphis, they have not been replaced.

Affordable housing is an issue affecting an estimated 250,412 persons in households with incomes below 80% of the median in Memphis in 1990. Of these, a total of 136,123 persons were living in poverty, 55,676 were children under 18 years of age, and 15,452 were elderly over the age of 65.

Home ownership rates in Memphis are much lower (53.8%) than those for the State (68.9%) and Nation (66.7%) according to 1997 estimates. Home ownership rates not only vary with income, but also vary with race.

There is a home ownership gap between white and black households in Memphis. An estimated 59.6% of the owner occupied units were owned by whites compared to 39.8% by blacks in 1990. These figures translate into a home ownership gap of 26,000 units according to recent estimates.

Cost-Benefit Analysis of Affordable Housing

Investing in affordable housing is a good investment for all parties involved. Benefits outweighed the costs by significant amounts in both social and economic terms. A local investment of \$1 million in housing construction generates an additional \$1.43 million in increased output during the year of construction. This construction spending creates a total of 28 jobs and increases earnings by \$764,200.

The long term economic impact of spending \$1 million in affordable housing for the very low, low and moderate income households was calculated for a ten year period. Net present value analysis using a 7% discount rate yields a positive \$902,015. For decision making purposes, net present values larger than zero are considered good investments.

The social benefits of home ownership include lower high school drop out rates, fewer teenage pregnancies, increased participation in civic activities, attraction of industry, increased personal net worth, and reduced economic strain, depression and alcohol usage. Among the potential social costs of home ownership are

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increased financial burdens caused by required maintenance, the loss of other government benefits, and the displacement of other residents due to increased housing prices created by new construction.

Although it is economically and socially beneficial to assist all groups of households, those with low and very low incomes need considerably larger subsidies and more assistance in order to become home owners, making the investment less attractive from a strictly economic point of view.

Targeting home ownership efforts to the group earning between 80% and 120% of the median income for the City is recommended due to the scarcity of resources. The investment in affordable housing for home ownership becomes more attractive, the higher the income group. Efforts should be made to provide decent, safe and sanitary rental housing opportunities for those households with incomes at less than 80% of the median.

Analysis Of Potential Funding Sources

This section analyzes the potential sources for dedicated revenue for the Foundation for Home Ownership (FHO). Possible sources of revenue for more than 80 existing housing trust funds throughout the United States were examined and evaluated to determine which sources could be utilized in the Memphis area. Rational arguments for the use of sources were developed utilizing the successful justifications for ongoing sources. Private enterprise's obligation was evaluated and added to the argument for use of some sources. Some sources require legislation or resolutions, so the appropriate changes were identified.

A number of considerations needed to be kept in mind when analyzing funding sources. Acceptability of the source by citizens/taxpayers, lawmakers, and professionals in impacted industries is a key consideration. The impact on the market, especially the influence on returns is also important. Since there are other housing trust funds for the state and for other Tennessee cities, any statewide funding source would affect these other organizations. Coordination with the other trust funds would be essential. The change in an existing revenue stream to be diverted to the Foundation could be met with stiff opposition. New taxes or fees could also be opposed by various groups. New taxes and fees are best accepted if they come from new revenue streams. Furthermore, the cost of collecting funds must be less than the amount to be collected.

Taking all the factors into consideration and analyzing the possible revenue sources leads to the conclusion that there are several sources with potential. In addition to the existing funding sources for the FHO, the following revenue sources hold definite potential.

- Proceeds from the new Tennessee lottery. A state lottery could be passed in the near future. Two sources of revenue are possible from the lottery: one is a

percent or fixed dollar amount dedicated to the FHO from the profits of the lottery. The other is the unclaimed prize money from the lottery. As a statewide source, coordination with other housing trust funds in Tennessee would be necessary.

- A tax on the new local horse racing track would generate a stream of income for the FHO. Taxes on gambling at tracks and casinos have produced substantial funding in other states.
- A major campaign to raise contributions for the FHO would be an effective source of revenue if it involved the full spectrum of potential givers: corporations, lenders, trades, foundations, and individuals. In conjunction with the campaign, grants from all possible levels and funds from the state, including THDA and the Tennessee Housing Program Fund should be solicited.
- A percentage of unclaimed property funds (escheat funds) could be designated by the state to the FHO. As a statewide source this revenue requires coordination throughout Tennessee.
- Expansion of the sale of government property. The lease or sale of city, county, or state property could be dedicated to the FHO. One new source of revenue could be the lease of land or building space for cellular communication.
- The sale of a government franchise or utility would generate funds, which could be partially dedicated to the FHO or the interest earned on those sales proceeds could be dedicated to the FHO.
- Loans at a low interest rate could be made to the FHO from lenders wishing to fulfill CRA requirements. The moneys could be lent to home buyers with any interest differential funding the FHO.

The full study explains these potential sources, as well as the rational arguments for their use and the required legislation or resolutions. Other sources utilized by housing trust funds throughout the country are also examined and analyzed in the study. The reasons for not being able to effectively use the other sources are also explained.

Note: Data sources were excluded from this summary, however, they are cited in the full text.

INTRODUCTION

Purpose

The purpose of this study is to identify potential sources of perpetual revenue to fund an affordable housing trust fund in Memphis, and to provide rational arguments to legislative and other decision making bodies who control these resources.

The Foundation for Home Ownership (FHO) contacted the Regional Economic Development Center (REDC) at The University of Memphis last summer requesting assistance in conducting this study.

Methodology

The study was divided into two major parts. One part consists of : 1) identification of different potential sources of perpetual funding and a forecast of their long term stream of revenue, 2) rational arguments for the use of the identified revenue sources for affordable housing, 3) discussion of the social responsibility of the private sector in support of the supply of affordable housing, 4) a review of the past legislation and statewide resolutions authorizing the raising of funds, and 5) an evaluation of the legal and political considerations surrounding each revenue source.

The other part of the study calculates the long term economic and social impacts that a dedicated revenue source for affordable housing would have on the local economy. The study demonstrates how the different potential sources of funds will impact the local economy in terms of: 1) number of affordable housing units generated, 2) new jobs created, 3) local taxes generated, and 4) social benefits such as family/neighborhood stabilization, crime prevention, and educational enhancement.

The first part of the study identifies and analyzes revenue sources used in Memphis and other cities in Tennessee and other states. This was accomplished by researching primary and secondary sources in the field of affordable housing trust funds. Local officials were contacted as well as officials at housing trust funds around the nation to obtain some of the information necessary. Included as part of the study are recommendations on strategies to be used for obtaining these sources.

The second part utilizes standard cost/benefit analysis methods and techniques to calculate the economic impacts of the affordable housing industry. The social impacts of home ownership for the very low, low, and moderate income households are identified as well. The latest publications in the social sciences research literature were used to present a complete picture of the impact affordable housing has on the local community. The analysis assumes new construction of affordable housing for home ownership as opposed to filtering down of existing homes.

About the Authors

The study was conducted by The Regional Economic Development Center at the University of Memphis in collaboration with the Department of Finance Insurance and Real Estate of the Fogelman College of Business and Economics at The University of Memphis. The first part of the study was conducted by Dr. Phill Kolbe and the second part by Sonya Schenk, Luchy Burrell, and Steve Redding.

Dr. Kolbe is a Professor of Real Estate at The Fogelman College of Business and Economics. Sonya Schenk was a graduate student working as a research assistant in REDC under the supervision of Luchy Burrell during the 1997 Fall Semester. Sonya chose this study to be her Capstone Project presented in partial fulfillment of the graduation requirements for the Masters Degree in City and Regional Planning in December 1997. Luchy Burrell is on the Faculty of the Graduate Program in City and Regional Planning and directs the University Center Program in REDC. Steve Redding is a Senior Research Associate with REDC who served as a consultant during the study.

BACKGROUND

The Memphis Housing Market

The housing market inside the city limits of Memphis is not doing well. New housing construction in Memphis during the 1980s hit bottom (Table 1 and Chart 1), with an annual average of only 410 units from 1980 to 1989 (City of Memphis 1980-1989). This figure is the lowest in fifty years.

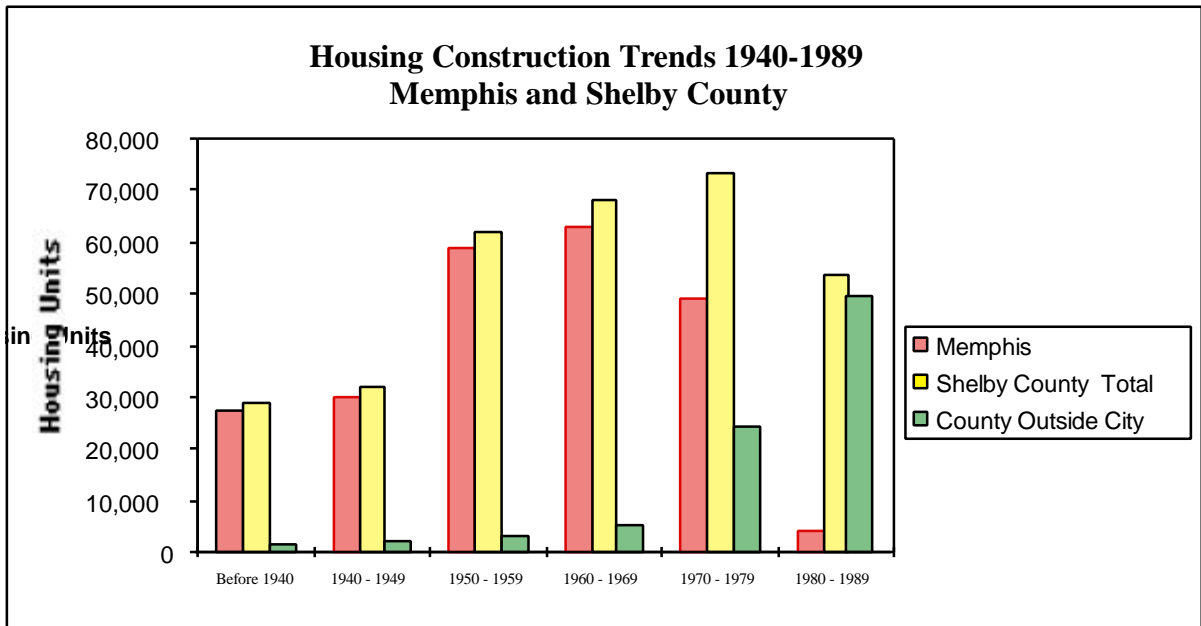
Table 1
History of Housing Construction in the
City of Memphis and Shelby County

Years	City	County Total	County Outside City
Before 1940	27,285	28,874	1,589
1940 - 1949	29,868	31,759	1,891
1950 - 1959	58,673	61,837	3,164
1960 - 1969	63,083	68,306	5,223
1970 - 1979	49,232	73,497	24,265
1980 - 1989	4,103	53,821	49,718

Source: U.S. Census Bureau, 1990; Urban Development Reports, 1980-1989.

These statistics become even more alarming when compared to the housing construction activity in Shelby County outside the City. Ten times more (4,972) new housing units were built every year in the County outside the City than were built within the City limits during the 1980s. The net change in the housing stock in Memphis for the entire decade of the 1980s was only 1.7% (Table 2).

Chart 1



Residential property values and rates of home ownership are far lower in Memphis than they are in the County as a whole. The median value of housing in Memphis in 1990 was \$55,700 compared to \$66,200 for Shelby County as a whole (Census 1990), indicating a higher concentration of lower value housing in the City.

Table 2
City of Memphis Housing Stock 1970 to 1990

	1970	1980	Change 70-80	% Change 70-80	1990	Change 80-90	% Change 80-90
Housing Units	197,982	244,470	46,488	23.5%	248,573	4,103	1.7%
Vacancy Rate	4.0%	5.7%	1.6%	40.5%	7.5%	1.9%	33.2%
% Owner Occupied	57%	56%	-1.0%	-1.8%	55%	-1%	-1.8%
% Renter Occupied	43%	44%	1.0%	2.3%	45%	1.0%	2.3%
Median Value	\$14,000	\$35,200	\$21,200	151.4%	\$55,700	\$20,500	58.2%
Median Value 1990\$	\$45,185	\$56,645	\$11,460	25.4%	\$55,700	(\$945)	-1.7%

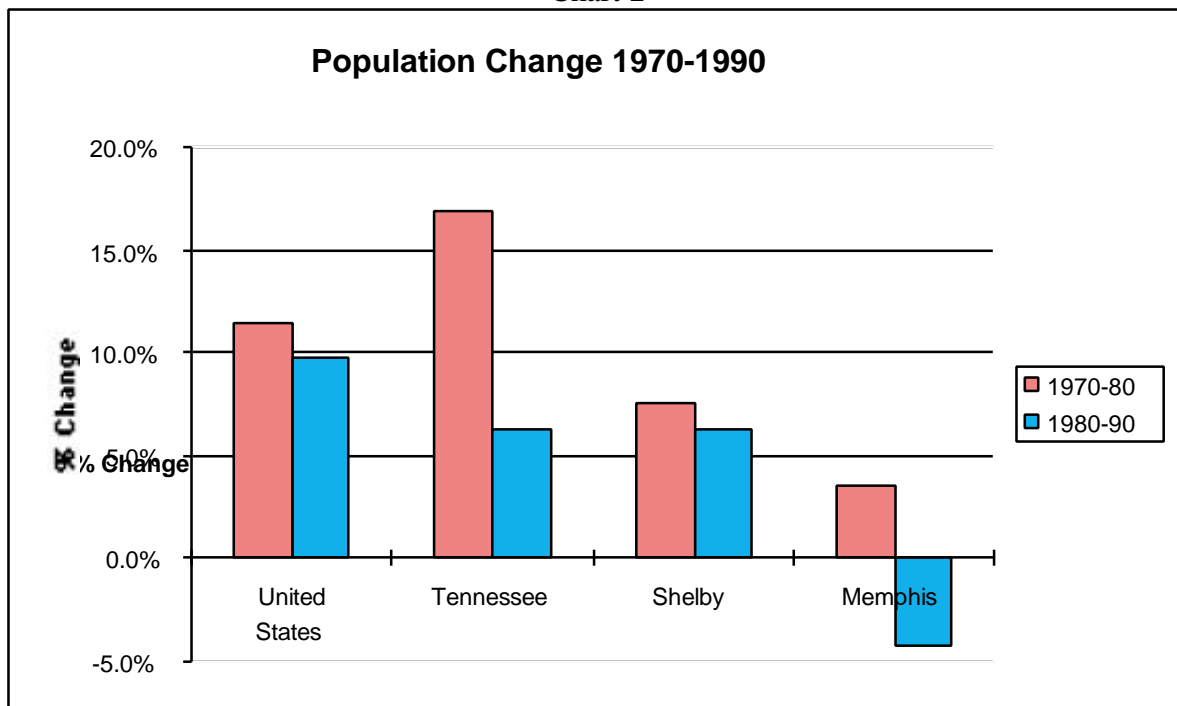
Note: 1990 Dollar figures were calculated using a personal consumption deflator.
Source: U.S. Census Bureau, 1970 - 1990. U.S. Dept. of Commerce.

In addition, the percentage of owner occupied housing went from 57% in 1970 to 55% in 1990, and to 53.8% in 1997 while the nation's rate of home ownership has remained fairly stable (65.7% in 1997, Gnuschke 1997). Furthermore, vacancy rates in the City increased from 4% in 1970 to 7.5% in 1990. A total of 18,744 housing units were vacant in Memphis in 1990, however, local officials estimate that 25% of these are in a dilapidated condition and should be demolished.

An estimated 20,000 units were lost to demolition in the City between 1970 and 1990 (Gnuschke 1997), and due to the sluggish construction activity they have not been replaced. Another 1,200 housing units are scheduled for demolition by the Memphis Housing Authority over the next three years. If this trend continues, the housing market in the City will continue to deteriorate, and the population will continue in a downward spiral.

The population of Memphis declined dramatically in the 1980s despite annexations (Chart 2). Census figures for 1990 for Memphis reflect a population decline of 27,704 (-4.3%), while Shelby County experienced an increase of 49,217 (+6.3%) during the same period. By contrast, the State and the Nation registered growth rates of 6.2% and 9.8% respectively during the 1980s.

Chart 2

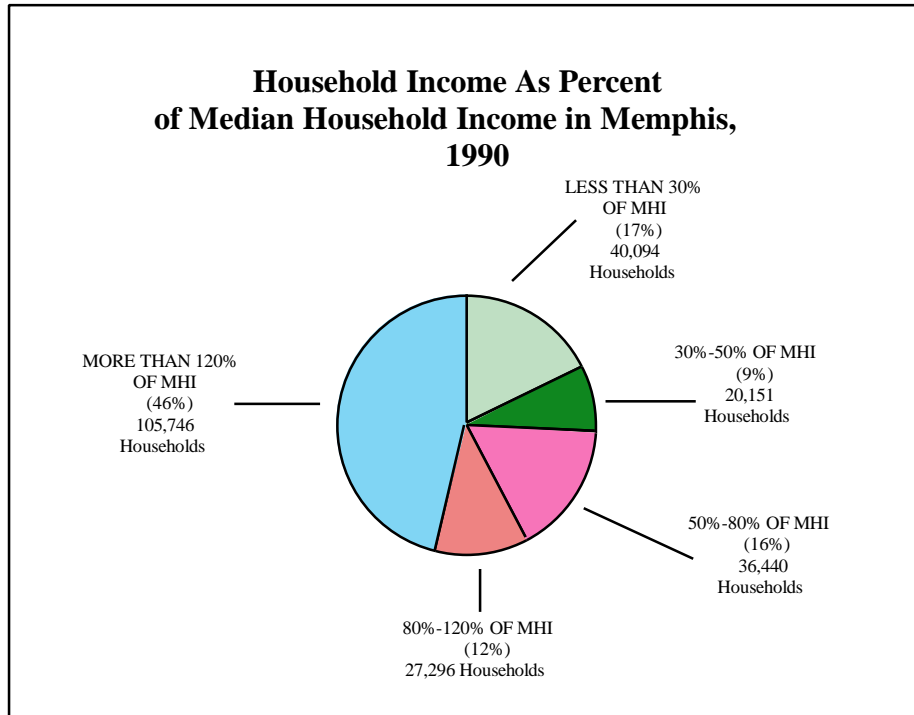


Housing Affordability Issues

The Foundation for Home Ownership is charged with the responsibility of providing affordable housing to the very low, low and moderate income households within the City of Memphis. These households have incomes at 30%, 50%, and 80% of the City's median respectively (Chart 3). Memphis had 96,684 households (42% of all households) earning less than 80% of the median household income of \$22,674 (Census 1990).

Although 42% of the households earned less than 80% of the median income in 1990, only 130 affordable housing units were built annually in the City of Memphis between 1986 and 1995 (Gnuschke 1997). In 1995, only 27 units out of the 4,273 sold in the City were affordable. An affordable house in Memphis in 1995 is defined as one costing \$56,000 or less .

Chart 3



Source: Census 1990.

The evaluation of housing prices to determine their affordability is a very difficult task. Affordability is defined as housing which is priced such that buyers do not pay more than 30% of their household incomes for housing (Loeb 1996). This assumes a 20% down payment and does not include taxes and insurance.

The affordability index is calculated by dividing the median household income in each area by the required income to purchase the median priced house. The higher the index, the better the housing affordability situation in a community. The overall affordability index for Memphis in 1990 was estimated at 150% . This means that the households with median incomes at the City's median had 150% of the income necessary to purchase the median priced house in the area.

Very few low or moderate income households in Memphis, however, have the ability to save 20% of the price of any house, much less \$11,200 (20% of \$56,000). In addition, taxes and insurance add significant costs to home ownership. Table 3 shows the affordability indices calculated based on a 100% financing and including these additional costs. Based on this affordability index five Zip Codes have indices below 100%. These are 38103, 38104, 38112, 38105, and 38120.

Table 3
Affordability Indices with 100% Financing
Plus Taxes and Insurance For Selected Zip Codes
Memphis, 1997

	Zip Code	Median Household Income 1997	Average Sales Price 1997	Payment @ 7.5% interest including T&I	Required Income*	Affordability Index
Downtown	38103	\$30,134	\$114,864	\$1,009	\$40,348	75%
Midtown	38104	\$26,864	\$100,354	\$882	\$35,270	76%
	38112	\$24,760	\$71,522	\$628	\$25,123	99%
Greenlaw	38105	\$10,734	\$42,725	\$376	\$15,022	71%
Elvis Presley	38106	\$20,114	\$31,464	\$276	\$11,054	182%
North Memphis	38107	\$18,595	\$44,535	\$391	\$15,629	119%
Jackson Avenue	38108	\$21,105	\$37,822	\$332	\$13,267	159%
Whitehaven	38109	\$26,339	\$38,119	\$334	\$13,368	197%
	38116	\$34,718	\$66,365	\$583	\$23,314	149%
	38111	\$32,601	\$79,885	\$702	\$28,084	116%
East Memphis	38117	\$47,687	\$119,654	\$1,051	\$42,053	113%
	38115	\$40,455	\$73,801	\$648	\$25,927	156%
Southeast Memphis	38125	\$60,311	\$146,056	\$1,283	\$51,302	118%
	38141	\$50,932	\$85,025	\$747	\$29,893	170%
	38118	\$32,588	\$58,723	\$516	\$20,648	158%
River Oaks	38119	\$57,946	\$130,011	\$1,142	\$45,673	127%
	38120	\$67,088	\$195,406	\$1,716	\$68,636	98%
Berclair	38122	\$31,087	\$51,891	\$456	\$18,238	170%
Frayser	38127	\$29,009	\$45,814	\$402	\$16,080	180%
Raleigh	38128	\$36,845	\$70,189	\$617	\$24,669	149%
Bartlett	38133	\$47,831	\$128,123	\$1,125	\$45,019	106%
	38134	\$45,195	\$93,956	\$825	\$33,011	137%
	38135	\$53,273	\$130,595	\$1,147	\$45,874	116%

* = (mortgage note x 12 months) divided by 30%

** Some Zip Codes contain portions of other municipalities in Shelby County.

Note: Required income is based on obtaining a 30 year loan for 100% of the value of the house with an interest rate of 7.5% with the assumption that the buyer will spend 30% of income on housing.

Source: Equifax Nat'l Decision Systems for MHI, Chandler and Chandler for 2nd Quarter 1997 housing sales prices.

The affordability indices for Zip Codes in Downtown Memphis and Midtown reflect the gentrification taking place in those areas. The low affordability index in the Greenlaw area may be the result of the higher priced (although technically affordable) units which have been built in the area in recent years. This new construction may be having a gentrification effect of sorts. In addition, the abundance of rental units also contributes to the resulting low affordability indices in these and other areas, as well.

There is an obvious gap between the supply and demand of affordable housing for the lower income households. Most new housing construction in the Memphis area is aimed at the middle and upper income market who can afford to purchase houses at \$100,000 and above. The free market economy has not been able to meet the needs of the lower income residents of the City.

Home Ownership Issues

Home ownership varies with income. The higher the income, the higher the rate of home ownership. The Memphis home ownership rate (53.8%) was lower than the state (68.9%) and the nation (65.7%) as a whole in 1997 (Gnuschke 1997). Home ownership also varies with race. An estimated 59.6% of owner occupied units in Memphis were owned by whites, and 39.8% were owned by blacks in 1990. This is even more disturbing when one considers that the population of Memphis was 54.8% Black in 1990. In order to bridge the ownership gap between black and white households, an estimated 26,000 new home owners are needed (Bolding et al. 1997).

POTENTIAL SOURCES OF DEDICATED FUNDING

Factors To Be Considered

This section of the report is devoted to the analysis of potential sources of revenue for the Foundation for Home Ownership (FHO). In order to conduct this part of the study, researchers examined the sources of revenue utilized by the more than 80 housing trust funds in operation throughout the United States. These existing funds are structured in a wide variety of ways, operate at multiple levels, and receive their funding from diverse sources. The revenue sources for housing trust funds at city, county, and state levels were evaluated for their suitability for adoption in Memphis. Other potential sources, especially those unique to the Memphis area, were also evaluated.

Several factors must be considered when analyzing sources of revenue for the FHO. First is the acceptance of a funding source by those most impacted by it. Any revenue source that has a direct impact on an industry must be approved by the professionals in that industry. If the funding source results in a loss of revenue for that industry, they may strongly oppose it. Many industries have powerful lobbies and can effectively stop any legislation needed to set up funding for the FHO. The acceptability of the source from lawmakers is critical when laws need to be enacted to establish funding. Local citizens must accept a funding source as they are often impacted. If the source is a tax, the citizen/taxpayer will be paying it, and they can influence the legislators on its passage or even reversal. Citizens may also be impacted in their investments or income by the revenue source. Citizen approval of a revenue source can go a long way in convincing lawmakers and even business leaders of the source's appropriateness.

The revenue source may impact the market. If returns are diminished because revenue is diverted from its traditional stream, the financial return may be decreased. Recipients of those cash flows may form strong opposition to the change and to the FHO. Such is the case of dedicating the interest earned by landlords on tenants' security deposits. Lessors rely on that interest to supplement rents and increase returns.

Since the FHO is not the only housing trust fund in the state, any statewide revenue source will need to be shared with funds in other Tennessee cities. Furthermore, Tennessee also has a state fund which is one of the revenue sources for the FHO. Grants from the Tennessee Housing Program Fund provide funding for affordable housing programs throughout the state. The Tennessee Fund has a powerful liaison with the state legislature as it has already procured funding through state taxes and fees. A temporary law was later made permanent to increase the real estate transfer tax and the mortgage transfer tax and to dedicate those monies to the state fund. Therefore, any statewide funding effort would mandate coordination with all the other trust funds, especially the Tennessee Housing Program Fund. Since the Tennessee fund provides grants to the city funds, it may be difficult to convince legislators to pass legislation that gives funding to city funds, especially if the same revenue source also sends money to the state fund.

Any change in established revenue streams to be dedicated to the FHO could be met with opposition from the current recipient of the funds. Such is the case of local city or county taxes which are already being received and are counted on by the government entity. New taxes or fees are often met with intense opposition from a populace that feels overtaxed. Therefore, the best way to get new taxes or fees accepted is to apply them to new revenue sources. These new sources are also not already claimed by governments.

A revenue source must be economically feasible. The cost of collected funds must be less than the amount to be collected. Some possible revenue sources for housing trust funds required operating expenses in excess of the total monies that could be collected.

Arguments For Investing In Affordable Housing

A number of rational arguments have been successfully utilized to justify revenue sources for housing trust funds around the country. These arguments are appropriate for justification of the proposed revenue sources for the FHO.

Increase Home Ownership Rates

Memphis lags behind both the nation and the state in home ownership. The home ownership rate in Memphis is 53.8 percent, while the U.S. rate is 65.7 percent and the Tennessee rate is 68.9 percent. A higher rate of home ownership is a sign of community stability and prosperity. FHO funding can help achieve this goal and meet the need for increased access to quality, affordable housing for low and moderate income households. FHO financing can also provide incentives for people to remain in Memphis, adding to its growth and stability.

Positive Impact On The Housing Market

An increase in affordable housing via the FHO will positively impact the Memphis housing market and act as an incentive for new construction. New tax revenue will be generated from home owner property taxes and from sales taxes and property taxes paid from new construction jobs created for the new housing. Local revenues from these jobs and taxes are critical for public services, such as schools, fire protection, and police. Cuts in services and loss of jobs can be avoided.

Achieve Community And Economic Development Objectives

An increase in affordable housing units can also result in enhanced community and economic development. Housing costs can actually be decreased for low income home owners, who previously paid a high percentage of their income in rent and had no potential for income tax relief. An increase in disposable income could provide more money for other expenses, including food, clothing, healthcare, and utilities. Home owners also have a more positive economic outlook because of their investment that is growing with increased equity. These expenditures provide further sales tax dollars for the local economy. Businesses are not only motivated by the possibility of more sales from increased disposable income, but are also attracted to the increased stability of employees who are home owners.

The large percentage of Memphians who have low incomes makes the issue of affordable housing a critical one for private enterprise. Many of their employees are the people in need of FHO assistance. Renters are more mobile than home owners and change employment more often. Additional disposable income will also add to the stability of an employee. Renters are more likely to move in search of a better job.

A jump in the supply of affordable housing will improve the government's ability to implement welfare reform. Job training, social services, and healthcare can be more efficiently and successfully provided. Housing investments from the state and federal government, as well as from private sector grants, will be enhanced with FHO funding because many of these revenue sources require matching funds. More affordable housing will also result in diminished numbers of homeless and near homeless families because of increased ability to address special needs.

All of the above arguments can be utilized in the justification of future possible revenue sources. These arguments also make it clear to the business community that they have an obligation to fund affordable housing.

ANALYSIS OF POTENTIAL FUNDING SOURCES

In addition to the existing revenue sources for the FHO, there are several funding sources which hold definite potential. These sources will be explained in the sections below.

Proceeds From A New Tennessee Lottery.

A majority of states have a lottery, including several states that border Tennessee. Many Tennessee residents play the lotteries in the nearby states, resulting in the transfer of revenue to those states. A move is on to keep that money in Tennessee and to attract funds from neighboring states without a lottery. With the governor willing to go along with the wishes of the citizens, a state lottery could be passed in the near future.

States dedicate the profits from their lotteries to a variety of uses, including the general fund, education, and affordable housing. Several housing trust funds have received revenue from their state lotteries. Most of the allotments have been lump sums, especially for capitalization of the programs. One source of revenue for the FHO from a Tennessee lottery is to designate a percentage of the lottery profits or a specific fixed dollar amount from the lottery profit to the FHO.

The designation of lottery profits to affordable housing may be especially attractive to lottery sponsors, such as Senator Steve Cohen, as they press for acceptance of a lottery by other legislators and by the voters. As a statewide source, coordination with other housing trust funds in Tennessee would be necessary. The amount to go to other city funds would also need to be determined.

As mentioned earlier in the considerations section, the legislature may be reluctant to provide funding to the city funds when it already provides revenue for the state affordable housing fund, which in turn sends money to the city funds through grants. Other states have provided lottery revenue to their state housing trust funds.

Existing state lotteries retain approximately 35 to 40 percent of the lottery sales as 'profit'. The remaining money goes to prizes, ticket providers, advertising, and retailers. Since the Tennessee lottery would be a new revenue stream, the amount of available funding is unknown. That new status, however, makes it more acceptable as a tax revenue source for the FHO.

Analysis of existing lottery cash flows provides some indication of the possible revenue. Considering the overflow of revenue from such non-lottery states as Arkansas and Mississippi and the size of the Tennessee population, the projected sales should fall in the range of \$500 million and \$1.3 billion. 'Profits' of 35 to 40 percent would generate \$175 million to \$520 million. One percent of the profits would be between \$1,750,000 and \$5,200,000. A negotiated fixed dollar amount could also be dedicated to affordable housing.

In addition to a portion of the lottery profits, the FHO could receive designated funds from the lottery by having unclaimed prizes dedicated to the FHO. One possible way to establish this revenue stream would be to have all unclaimed prizes purchased at Memphis retailers go to the FHO. Statewide unclaimed prizes will probably exceed \$1,000,000 per year. Since Memphis is the only major city bordering non-lottery states, it should produce a large percentage of the sales. The acceptability of this option is enhanced by the fact that it does not come out of the 35-40 percent profit, but instead from the established prizes (usually about 50 percent of the sales).

As is the case with the lottery itself, the designation of revenue to the FHO would require state legislature approval. It could be incorporated in the enacting legislation. The support and coordination of the other housing trust funds is essential and could assist in the establishment of this revenue source.

Proposed Local Race Track

The problems with a statewide source make a local source attractive. Even though it would require state approval, including from the Racing Commission, a tax on the new local horse racing track would generate a stream of income for the FHO. Taxes on gambling at tracks and casinos have produced revenue for other housing trust funds. Being a new revenue source, the track would be a more acceptable tax source for the FHO.

The amount of revenue from this new source, however, is unknown. Analysis of other racetracks provides some indication of the magnitude of cash flows. Jurisdictions tax on either the handle (total bets at the facility) or on the win or take-out (total minus winnings to bettors). As a new facility, the size of the revenue is unknown, but total handle of \$10 million to \$50 million is a probable range. One quarter of a percent tax on the handle could generate between \$25,000 and \$125,000 annually. This size tax could be more readily accepted by track owners and the positive use of the tax funds would be appreciated by owners and voters.

Private Contributions

A key difficulty with both the lottery and the race track is that the passage of required legislation or regulations is unknown. An option for FHO revenue that requires no change in law is a major campaign to raise contributions. Contributions to the FHO can be an effective source of revenue if it involved the full spectrum of potential givers: corporations, lenders, trades, foundations, and individuals. In conjunction with the campaign, grants from all possible levels and funds from the state, including THDA and the Tennessee Housing Program Fund should continue to be solicited.

Several housing trust funds have looked at contributions as a source of revenue only to be faced with the problem of being a government body without non-profit status. The FHO does not have this problem. Researchers were surprised at the number of Memphians who had no idea of the FHO's existence. A major campaign could raise substantial money on an ongoing basis once people became aware of the presence and the positive mission of the FHO. Contributions are also a much more acceptable revenue source than taxes. Businesses are ready to contribute when they realize it avoids a tax. Passage of a new tax can be avoided if enough money is contributed.

Land could also be donated to the FHO. Land donations could be sold to raise funds or it could be developed for affordable housing. Donated land could be advantageous to the property owner (income tax write-off) and to the city (increased property taxes as the land is developed). Some housing trust funds have mandated contributions in place of a tax for such actions as hazardous waste disposal. Other funds have conducted ongoing campaigns to raise monies from all potential donors. A campaign that educates Memphis on the role and success of the FHO could bring in funds from a variety of sources. Many communication outlets provide free 'advertising' to nonprofits. More interviews in the media could announce the campaign and inform donors about the FHO. Personal contact of business leaders by board members and other individuals supporting the FHO could raise substantial funds. Housing trust funds in other cities smaller than Memphis have raised \$100,000 a year. Businesses and voters who are aware of the FHO's mission will not only be more willing to contribute funds, but will be more likely to approve in the future other revenue sources, including taxes.

Many trade organizations raise funds for charities unrelated to their industry. The Memphis Area Association of Realtors and the Real Estate Industry Trade Association donate thousands of dollars to Boy's Town each year. These organizations and other real estate/housing entities could designate at least a portion of their donations to the FHO. Other housing trust funds have also successfully tied their campaigns with other drives, including the United Way.

One way to ensure ongoing revenue for the FHO is to seek contributions in the form of trusts. A wealthy donor could set up a trust where investment income goes to the FHO as long as the donor is living. When the donor passes away, the assets in the trust go to the donor's heirs. Many nonprofits have benefitted from this arrangement.

Unclaimed Property Funds

Unclaimed property funds escheat to the state. Other housing trust funds have successfully negotiated designation of a portion of these funds for affordable housing. This source has the same problems as the other statewide sources with mandatory coordination with other funds and legislative approval, but it also has the difficulty of diverting an existing state revenue source. The amount varies annually, but is usually several million dollars. One option with this revenue source is dedication of escheat funds from the Memphis area being designated for the FHO.

Proceeds From Sale Of Government Property

The FHO has received revenue from the sale of government property. Proceeds from the sale of the Mid-Town Corridor lots by the City of Memphis have been an effective source of revenue. This source could be expanded in several ways. One way to expand this source is to approach other governmental bodies. The proceeds of sales of county and state property, especially property located in Memphis, could be dedicated to the FHO.

In addition to the sale of property, the rent payment on leases for government property could go to the FHO. One of the fastest-growing users of property is the cellular communication industry. These companies rarely buy property, but instead lease property for the growing number of towers and other transmitting facilities. The rapid expansion of cell phones has put intense pressure for more transmission sites.

One of the largest owners of real estate throughout the metropolitan area is the government. The government's land and existing structures are widely distributed and provide excellent locations for the cellular communication expansion. New sites would produce new revenue for the jurisdiction, which could be dedicated to the FHO. Each site could result in rent revenue of several thousand dollars. The key problem with this revenue source is acceptance by the government. It would require a champion in government to push the FHO cause.

Proceeds From Sale Of Government Franchise Or Utilities

The sale of a government franchise or utility has been an effective revenue source for some housing trust funds. Part of the sales proceeds could be dedicated to the FHO. This option would only be a one time event; another option to provide ongoing funds involves investing the sales proceeds and dedicating the investment income to the FHO. The investment income would provide ongoing revenue. The champion in the government office could get such an arrangement approved by the lawmakers.

Low Interest Loan Programs By Private Lenders

Lenders have provided loans for housing trust funds at low interest rates in order to support the cause of affordable housing and to meet government requirements for reinvestment in the community. The housing trust fund, in turn lends the money to low income home buyers. When there is an interest rate differential between the two loans, the difference provides additional income for the trust fund. This loan procedure has been effectively used by several housing trust funds, including the one in Nashville. The loan program can be expanded to include nontraditional lenders, such as the large businesses and other employers in the area. Firms who are reluctant to donate directly to the FHO could lend reserve money to the fund.

OTHER REVENUE SOURCES

Other revenue sources have been proposed and many are being utilized by existing housing trust funds. These sources will be examined in this section.

A wide variety of taxes have been used for revenue sources by housing trust funds. In general, taxes are not a good alternative for the FHO. Taxpayers in Memphis and in the State of Tennessee feel overtaxed and have strongly opposed any increase in taxes or new taxes. Lawmakers at all levels in the state have accepted the same philosophy and are very reluctant to initiate taxes.

Real Estate And Mortgage Transfer Taxes

Two existing taxes are not available because part of their revenue is already dedicated to the Tennessee Housing Program Fund: real estate transfer tax and mortgage transfer tax. Real estate professionals in those fields also strongly oppose any increase in those taxes. Furthermore, the existence of the state fund with its grants to the FHO and other city funds means there is a legislative resistance to supporting other funds through statewide taxes.

Income, Sales, And Property Taxes

Since very few individuals are required to pay state income taxes in Tennessee, this tax is not a viable option, including the checkoff for contributions used in other states. Increased sales or property taxes are an option that would require local government approval, but the opposition at this level is as strong as it is at the state level. Dedication of existing tax revenue is also out of the question because the collecting governments are resistant to releasing funds that they continue to count on for revenue.

Other Fees And Taxes

Such sources as payments for housing code violations or penalties for late payments are already claimed by government agencies. Other local taxes that have been used in other areas include taxes on extraction/oil drilling revenue (not applicable in Memphis), excise tax on aircraft fuel and hotel/motel taxes (already dedicated to other entities).

Several jurisdictions dedicate to housing trust funds a tax or a fee/contribution in lieu of a tax on development. Linkage fees are charged per square foot on all new construction or a change in use. Inclusionary zoning fees are mandated for commercial construction instead of requiring actual construction of required housing units. Fees are also charged for density bonuses and for impacts when large buildings are constructed. Condo conversion fees have also been dedicated to funds. All of these taxes/fees that are tied to development would meet strong opposition from the development community and from pro-growth lawmakers. Furthermore, the commercial growth in Memphis is considerably below the level growth in those cities with such fees.

Interest Earned By Government Accounts

Several housing trust funds receive revenue from interest earned on accounts. Ohio's state fund receives interest from the state's rainy day fund. Interest on revenue bond application fees goes to the Minnesota fund. Unfortunately, interest earned by governments in Tennessee is already earmarked for use.

Interest On Security Deposits And Escrow Accounts

Security deposits from apartment tenants have been deposited in a state account and interest is designated for trusts in three states. Apartment landlords in Tennessee, however, would strongly oppose such an action as it cuts into their return. Several trusts receive interest earned on escrow accounts. These neutral accounts are established to hold earnest deposits from real estate buyers. The Tennessee lenders object to paying interest on these accounts and any attempt at establishing a law to set up such an arrangement would surely be defeated as it was in Idaho.

Employers' Contributions

In some cities housing trust funds have been receiving regular designated contributions from employers. These contributions of a stated amount per hour worked were negotiated by unions in employee contracts. The general weakness of unions and relatively low wages in Tennessee make this option unlikely.

State And Local Governments' General Fund

Many housing trust funds receive regular revenue from the government's general fund, especially at the state level. Tennessee is reluctant to donate to city trusts, such as the FHO, because it already supports its state fund through taxes. Furthermore, the state has also recently reclaimed funds dedicated to the Tennessee Housing Program Fund when the state has had budget shortfalls.

The local governments would be better targets for FHO funding, but the general fund is not likely. The City of Memphis support has been most forthcoming when it is from a specific revenue source, such as the Ramesses Fund or the Mid-town Corridor lot sales. The key to getting the local government to provide more support for the FHO is to have someone in those governments who will champion the FHO cause and overcome the lack of political will to fight for affordable housing.

COST AND BENEFIT ANALYSIS OF AFFORDABLE HOUSING

The cost and benefit analysis of investing in affordable housing is divided into two categories: economic impacts and social impacts. The economic impacts include those costs and benefits which are readily quantifiable such as output, jobs and earnings. The social impacts include the effects on education, teen pregnancy, and life long earnings, among others which are not easily quantifiable in monetary terms.

Economic Impacts

The economic impacts of investing in affordable housing are divided into short term and long term effects on the local economy. These include the calculation of the costs and benefits of affordable housing from the point of view of households, local government, and the third sector. The third sector refers to not-for-profit organizations and public private partnerships.

Short Term Impacts

Investing in construction of any type has positive short term effects on the local economy. The construction industry has an overall multiplier of 1.431 (RIMS II 1992). For example, an investment of \$1 million in new housing construction in Memphis will generate an additional \$1.4 million in successive rounds of additional spending on the local economy. This \$2.4 million dollar spending will generate 28 new temporary jobs and \$764,200 in increased earnings (Table 4).

Table 4
Impact of Spending \$1 million in Construction Locally

	Direct	Indirect/Induced	Total
Construction Spending	\$1,000,000	\$1,431,000	\$ 2,431,000
Increased Earnings	\$620,000	\$144,200	\$ 764,200
Increased Jobs	23	5	28

Source: RIMS II. 1992. State of Tennessee.

Impact on Households

Very low, low, and moderate income households require a certain level of financial subsidies in order to become home owners. The estimated subsidies required range from a low of \$45 per month for those households with moderate incomes to \$223 for those with very low incomes, or \$540 to \$2,676 per year respectively (Table 5). Research shows that 60% of low income buyers and 33% of very low income buyers outgrow their need for subsidies after 10 years (Stegman et al. 1991).

It should be noted that the housing costs listed below include 100% financing, taxes, insurance and an allowance for maintenance as well as utilities. In addition, the home values used in the calculations ranged from \$40,000 for the very low income household to \$56,000 for the moderate income household. Households who become home owners start to accumulate equity which has a very positive long lasting impact on them. These benefits to households are shown as costs to the “Third Sector” in the section below.

Table 5
Estimated Housing Costs For Very Low, Low, and Moderate Income Households in Memphis, 1997

	Very Low Income 30% of MHI	Low-Income 50% MHI	Moderate Income 80% MHI
Annual Household Incomes, 1997	\$9,052	\$15,087	\$24,138
Home Values	\$40,000	\$48,000	\$56,000
Payments @ 100% Financing (PI)	\$280	\$336	\$392
Taxes, Insurance, and Maintenance	\$95	\$114	\$132
Monthly Utility Fees (LG&W)	\$75	\$100	\$125
Total Monthly Housing Cost	\$450	\$550	\$649
Income Available for Housing (30%)	\$226	\$377	\$603
Required Monthly Subsidy	\$223	\$172	\$45
Annual Subsidy Required	\$2,676	\$2,064	\$540

Note: Taxes, Insurance and Maintenance were assumed to add 15% to the monthly cost.

Source: MHI Estimates from Equifax National Decision Systems, 1997.

Impact On Local Government

Residential developments of all prices generate costs and benefits for the public sector (Table 6). Estimates of the impact on the public sector (real estate property taxes less public service costs) of constructing new affordable housing in Memphis ranges from a net gain of \$887 per year for moderate income households, to a net loss of \$1,326 per year for those households with very low incomes. The range in the net impacts is contingent upon the level of public service capacity available within the particular neighborhood to serve the additional housing units. Additional public service costs would range from \$0 to \$1,960, assuming no additional capital investment will be required (Aronson and Schwartz 1987).

Since most of the affordable housing would be built in already established neighborhoods in Memphis where public infrastructure is already in place (in-fill development), excess capacity is likely to exist. Therefore, no additional service costs would be incurred. In fact, the unit service cost would decline as a result of an increase in the population served with in-fill development. The costs

to the public sector include the provision of services, such as water, sewerage, fire and police protection, street maintenance, education, etc.

Table 6
Economic Impact of Affordable Homes
on the Public Sector, 1997

Costs	<u>Very Low Income</u> 30% of Median		<u>Low Income</u> 50% of Median		<u>Moderate Income</u> 80% Of Median	
	Low	High	Low	High	Low	High
Public Services (Operating Only)*	\$0	\$1,960	\$0	\$1,960	\$0	\$1,960
Total Costs	\$0	\$1,960	\$0	\$1,960	\$0	\$1,960
Benefits						
City Property Taxes	\$316	\$316	\$379	\$379	\$442	\$442
County Property Taxes	\$318	\$318	\$381	\$381	\$445	\$445
Total Benefits	\$634	\$634	\$760	\$760	\$887	\$887
Net Impact	\$634	-\$1,326	\$760	-\$1,200	\$887	-\$1,073

Note: *Costs of services are variable depending on existing service capacity. If sufficient excess capacity exists, the marginal cost will be zero. If excess capacity does not exist, the costs may be \$1960 if no capital investment is required. These figures are net amounts after fees for water and sewerage are collected.

Source: Aronson and Schwartz. Management Policies in Local Government Finance.1987. Dept. of Commerce. Fixed Weight Deflator. 1997.

Impact On The Third Sector

The third sector here refers to the non-profit organizations and the public-private partnerships. These groups may be called upon to fill in the gaps to enable very low, low and/or moderate income households to become home owners. The economic impact on these groups would include the cost of providing the necessary subsidies ranging from \$540 per year for moderate income households to \$2,676 per year for households with very low incomes (Table 7). The total amount of dollars needed to subsidize everyone (96,685 households in 1990) making less than 80% of the median income would be \$168.6 million annually.

Table 7
Estimated Annual Subsidies
to Households Needed for Home Ownership 1997

	Very Low- Income >30% of MHI	Low-Income 30%-50% of MHI	Moderate Income 50%-80% of MHI
Subsidy Required per HH	\$2,676	\$2,064	\$540
Number of Households	40,094	20,151	36,440
Funds Required	\$107,291,544	\$41,591,664	\$19,677,600

Source: Schenk, Sonya. 1997. "The Social and Economic Impacts of Home Ownership on Poor People and on the Memphis Economy".

Long Term Impacts

The net present value of an investment of \$1 million in affordable housing for a ten year period was estimated at \$902,015 using a 7% discount rate (Table 8). For the purpose of demonstrating the economic impact of affordable housing on the local economy, an investment of \$1 million was used as an example. A number of assumptions were used for the calculations of the net present value.

Assumptions

The \$1 million investment would build 16 housing units at \$50,000. All of the units would be built and sold during the first year and will be occupied for the full ten years. A local non profit organization would act as the developer and will require 20% in administrative costs during the one year construction period. In addition to normal development costs, the 20% would cover training and monitoring of the new home owners. All of the houses would be sold when completed with 30 year 100% mortgages at 7.5%. Property values and tax rates were assumed to remain constant.

Estimated Benefits

The present value of the benefits accrued over the ten years was estimated at \$1,520,059 (Table 8). The estimated benefits include the first year increase in output, and the increased earnings created as a result of the new construction (Table 5). City and county real estate property taxes paid by the new home owners are also included in the long term benefits.

Estimated Costs

The present value of the total costs were estimated at \$618,044 for the ten year period (Table 8). The costs include an estimated \$200,000 in administrative costs paid to the non profit organization

to manage the affordable housing effort during the one year construction period only, plus the estimated annual amount of subsidies required by households in order to afford to become homeowners (Tables 6 and 8).

Table 8
Long Term Cost/Benefit Analysis of An Investment
in Affordable Housing for
Very Low, Low and Moderate Income Households

Yr.	Year	Investment in Affordable Housing*	Present Value of Benefits**	Present Value of Costs***	Net Present Value
0	1998	\$1,000,000	\$1,431,000	\$200,000	\$1,231,000
1	1999		\$11,850	\$55,626	(\$43,776)
2	2000		\$11,075	\$51,987	(\$40,912)
3	2001		\$10,351	\$48,586	(\$38,235)
4	2002		\$9,674	\$45,408	(\$35,734)
5	2003		\$9,041	\$42,437	(\$33,396)
6	2004		\$8,449	\$39,661	(\$31,211)
7	2005		\$7,896	\$37,066	(\$29,170)
8	2006		\$7,380	\$34,641	(\$27,261)
9	2007		\$6,897	\$32,375	(\$25,478)
10	2008		\$6,446	\$30,257	(\$23,811)
		\$1,000,000	\$1,520,059	\$618,044	\$902,015

Net Present Value = \$902,015 @7%

Notes: *16 Units @ \$50,000. ** Construction impact (RIMS II 1992), plus property taxes. ***Average costs (subsidies + operating costs) for all three income groups.

Social Impacts

The social impacts of home ownership include benefits and costs which are difficult to estimate in dollars and cents. The social benefits and costs are listed here because, although not quantified, they are very important to the community and should be considered by policy makers when making funding decisions on affordable housing.

The benefits and costs listed below were obtained from research of the recent literature on the topic of affordable housing.

Social Benefits

1. Children of low-income homeowners are less likely to drop out of school. This increases their life-long earnings potential (Green and White 1994).
2. The probability of daughters of very low income homeowners becoming pregnant is 4% less than that of daughters of renters at the very low income level. The difference diminishes as income raises (Green and White 1994).
3. Some 38% of firms looking for new sites consider housing availability in their decision, and 60% of these consider housing availability for both higher and lower paid workers (Wilkstrom 1975).
4. Home ownership increases net worth by building equity in the property. The median net worth of homeowners is 21 times greater than the median net worth of renters (Joint Centers 1997). 50% of low-income homeowners with incomes of less than \$20,000 have 71.9% of their wealth in home equity (Joint Centers 1997).
5. Low-income homeowners are more likely to be involved in civic activities at the neighborhood and block levels than are renters . (Rohe and Stegman 1994a)
6. Workers who are homeowners report reduced levels of economic strain, depression, and alcohol usage when compared to renters. (Page-Adams 1997) Authors' Note: This research was based on auto workers only, however, we believe that it can apply to workers of any industry.
7. Home ownership has a positive impact on the life-satisfaction of low-income home buyers. (Rohe and Stegman 1994b)
8. New home construction in low-income areas increases the values of surrounding properties. (Megbolugbe 1996)

Social Costs

1. Required maintenance places financial burdens on low-income households. (Meyer 1994)
2. Home ownership may result in the loss of other government benefits, because there are not enough linkages between agencies to avoid benefits canceling out each other. (Meyer 1994)
3. New homes in low-income areas raise prices and cause other low-income people to be displaced. (Megbolugbe 1996)
4. Home ownership reduces mobility and contributes to unemployment (30% of households with earnings up to 150% of the area MHI are likely to experience

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forced moves). (Meyer 1994) Authors' Note: This is contrary to a Goss and Phillips, 1997 study in which they found that home ownership reduces the duration of unemployment.

5. Low-income homeowners do not realize the same financial benefits of home ownership (income tax deduction) as high-income homeowners (Meyer 1994 & Page-Adams 1997). The standard deduction is greater than the mortgage interest paid at these price levels.

The affordable housing issue and the issue of home ownership affected an estimated 250,412 persons in 96,684 households with incomes below 80% of the median household income in Memphis in 1990. Of these, a total of 136,123 persons were living in poverty, 55,676 were children under 18 years of age, and 15,452 were elderly over the age of 65.

CONCLUSION

The need for affordable housing in Memphis is serious. Hundreds of thousands of people are directly affected by this problem and they include a sizable portion of children under the age of 18, and adults over the age of 65.

Affordable housing is a good investment for all parties involved. Benefits outweigh the costs by significant amounts in both social and economic terms. Although it is economically and socially beneficial to assist all groups of households, those with low and very low incomes need considerably larger subsidies and more assistance in order to become home owners. Furthermore, research shows that home ownership at the low and very low income groups may result in an increased financial burden on these households caused by required maintenance. For these reasons and due to the scarcity of resources, the FHO should consider targeting their home ownership efforts to the group earning between 80% and 120% of the median income for the City.

Since many of the revenue sources utilized by other housing trust funds are not feasible for the FHO, the current sources should continue to be pursued, especially grants.

If the legislation can be passed, the lottery and horse track could be good sources of ongoing revenue. A major contribution campaign is the best immediate option requiring no legislative action and offering strong potential.

A loan program from lenders and businesses would support the FHO mission as well as provide funding. As with the lottery, statewide coordination with all housing trust funds would be required for designation of escheat funds.

The sale or lease of government property, franchises or utilities would require local support and underlines the importance of having a champion for the FHO cause in the local governments.

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