

A Utah Community Action Partnership Association Report

**Olene Walker
Housing Loan Fund
Dedicated Source
Funding
—
Addendum**

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Olene Walker Housing Loan Fund Dedicated Source Funding Addendum

Overview

This addendum discusses several additional revenue streams for the Olene Walker Housing Loan Fund (OWHLF) in an effort to continue the dialogue surrounding a dedicated source of funding. The addendum takes a brief look at fees and interest provided by property taxes, the General Fund, and abandoned property. The addendum also details an additional estimate for interest on real estate accounts and gives a broad estimate of the monetary need for low-income housing projects in Utah.

Penalty Fees on Late Property Tax

Delinquent property taxes are subject to a penalty of 2% or \$10, whichever is greater, and carry an interest rate of 6% plus the target federal funds rate (4.25% in 2006). Property tax is accrued by local governments in Utah and, thus, all penalty fees are collected by these local governments.

Late fees are due within five years. If the delinquent taxes and fees are not paid, the local government takes possession of the property for sale. Entitlees to the fees receive them when paid. If left unpaid, entitlees receive the fees following possession and sale of the property. The accrued interest on these delinquent taxes and penalties are currently provided to the local governments.

The amount of delinquent taxes and penalties are, according to the Salt Lake County Treasurer's office, fairly stable from year to year and tend to follow the rate of inflation.

Estimated Interest on Late County Property Tax Penalty Fees

County	Delinquent Taxes and Penalty	Interest Rate	Estimated Days Late ²	Interest Accrued
Salt Lake	\$27,000,000	10.25%	180	\$1,364,795
Utah	\$17,000,000	10.25%	180	\$859,315
Davis	\$6,000,000	10.25%	180	\$303,288
Balance of State ¹	\$24,360,500	10.25%	180	\$1,231,373
				\$3,758,770

¹ Estimate based upon population - 32.76% - Utah Population Estimate Committee, July 1, 2006

² Estimate based upon the fact that half of all outstanding due is over one year old

General Informational Sources: Craig Jolley, State Tax Commission – Property Tax Division; Real Property Billing and Collecting, Standards of Practice, 12, Utah State Tax Commission.

Excess of accrued interest on cash deposits from Utah’s General Fund

Interest on the General Fund’s cash deposits remains in the General Fund and is estimated and accounted for in the budget. Any excess of this estimate is realized as the state surplus (or deficit).

“All interest is allocated to the General Fund unless state law or trust agreements require allocation of interest to other funds” (State of Utah’s 2006 financial statements, page 9). A portion of the surpluses are currently dedicated as follows:

- 25% to the Rainy Day Fund, with a cap of 6% of the appropriations for that spending period;
- 25% to loans made from the Rainy Day Fund, with a cap of 6% of the appropriations for that spending period;
- a portion to the disaster loan fund; and
- a portion to the Industrial Assistance Fund, utilized to attract businesses to Utah with tax break incentives.

General Fund Investment Income

Year	2006	2005	2004	2003	2002	2001	2000
Actual	\$40,006,000	\$13,602,000	\$5,505,000	\$6,471,000	\$9,732,000	\$27,515,000	\$19,534,000
Authorized	\$25,000,000	\$11,000,000	\$7,750,000	\$6,050,000	\$11,500,000	\$25,000,000	\$14,000,000
Excess/Shortage	\$15,006,000	\$2,602,000	\$2,245,000	\$421,000	\$1,768,000	\$2,515,000	\$5,534,000

Source: State of Utah Budget Summaries, 2001-2008

The unusually high excess for the period ended 2006 is a result of the large amount of unspent funds in the General Fund attributable to the large surplus.

General Informational Source: Phillip Jeffery, Governor’s Office of Planning & Budget

Dormant Accounts on Abandoned Property

Dormant accounts on abandoned property are handled by the Unclaimed Property Division of the Treasurer’s Office. The yearly estimate of this amount is between \$4 and \$6 million dollars, which total is a function of how much unclaimed property is brought into the fund minus the amount required to fund the department’s operations and the amount paid out to the rightful owners of the unclaimed property. The excess revenue and interest from the unclaimed property is passed to the Uniform School Fund.

Amount to Uniform School Fund	
Year	Amount
2006	\$ 13,000,000
2005	\$ 0

The amounts passed to the Uniform School Fund in 2005 and 2006 are fairly anomalous.

General Informational Source: Richard Ellis, Treasurer’s Office.

Interest on Real Estate Escrow Accounts

The following revenue estimates are far lower than the numbers provided in the OWHLF Dedicated Source Funding report. The report’s revenue estimates are based upon the fact that, while many agencies and agents are signed up with Utah Association of Realtors Housing Opportunity Fund (UARHOF), most real estate transactions occur with the escrow going to a title company and, as such, do not collect escrow interest for UARHOF. An employee of Utah Association of Realtors stated that “Almost no one uses UARHOF” because of this reason. The chairman of the Salt Lake Board of Realtors disputes this fact. He states that over half of all Salt Lake agencies and agents are signed on with UARHOF. However, he acknowledges that most title companies do not collect interest for the fund.

Unless directed toward the UARHOF, earnest monies are placed into non-interest bearing accounts. While these monies are generally in escrow for under one month until the close of a real estate transaction, new housing construction earnest monies may remain in escrow for three or more months.

Interest on Real Estate Escrow Accounts					
Year	Aggregate Price of Homes Sold¹	10% Down-Payment on Home	Interest²	Days in Escrow Account³	Escrow Interest
2006	\$11,316,853,369	\$1,131,685,337	2%	21	\$1,077,796
2003	\$5,813,261,025	\$581,326,103	2%	21	\$553,644
2000	\$4,272,397,643	\$427,239,764	2%	21	\$406,895

Source: *Aggregate Price of Homes Sold* based upon data from Utah Association of Realtors market reports

¹ These numbers do not include commercial sales or most new construction sales
² Several banks report paying far lower interest rates, as low as 0.25%
³ This number is anecdotally chosen; as stated above, the days in escrow for new construction are generally much longer

Housing Need

The 2006 OWHLF Annual Report estimates a shortage of 1,700 new low-income housing units per year. If you approximate the cost of one unit of housing at \$100,000, you come up with a need of \$170,000,000. While this number seems astronomical, much of the needed funds are raised by developers from investors. The OWHLF only needs to provide an incentive for building by filling in funding gaps.

Fiscal year	OWHLF leverage	Housing need	OWHLF need
2005-6	11.5 ¹	\$170,000,000	\$14,782,609
2004-5	7.7	\$170,000,000	\$22,077,922

¹The 2005-6 leverage is an anomaly and will likely be lower 2006-7.

Summary

The three revenue sources discussed above are just a few of many possible dedicated revenue streams. They are neither all effective nor feasible, but are intended to continue the dialogue in the quest for a dedicated source of funding for the OWHLF in an effort to keep up with the demand of low-incoming housing in Utah.