

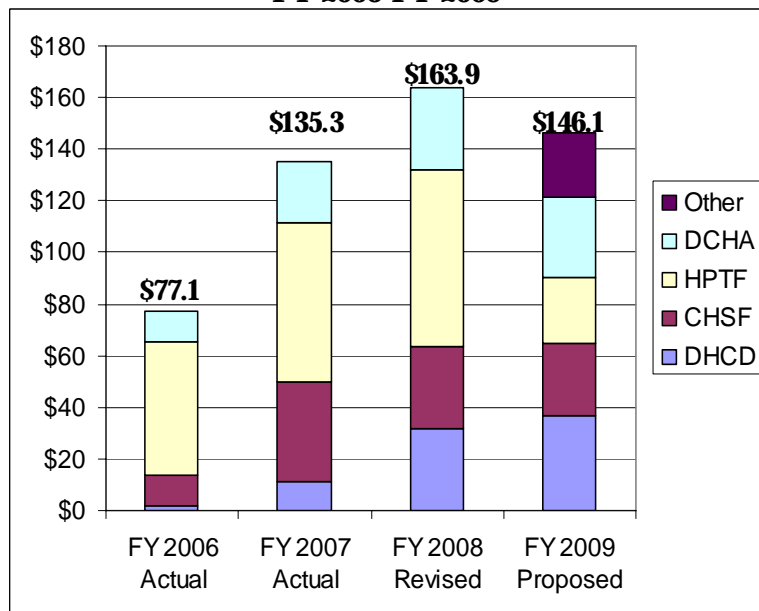
**TESTIMONY OF JENNY REED, RESEARCH ASSOCIATE  
DC FISCAL POLICY INSTITUTE**

**For the Public Hearing on  
Fiscal Year 2009 Budget Request Act of 2008  
The Department of Housing and Community Development  
District of Columbia Committee on Housing and Urban Affairs  
April 11, 2008**

Chairman Barry and members of the Committee, thank you for the opportunity to speak today. My name is Jenny Reed, and I am a Research Associate with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. I am here today to testify on the overall picture for funding for affordable housing in the district, the constraints placed on affordable housing production funds, and the lack of transparency in the newly proposed Unified Housing Fund. Most, but not all, of the issues I will talk about are specifically related to the Department of Housing and Community Development (DHCD), but I would like to talk about them collectively to tell a comprehensive story on affordable housing funding.

The Mayor's proposed budget for affordable housing includes several new initiatives but at the same time, funds devoted to the city's Housing Production Trust Fund are declining abruptly because of falling collections in DC's deed taxes—the source of the Trust Fund's funding. The result of these conflicting trends is that the total proposed budget for affordable housing in FY 2009 is \$146<sup>1</sup> million, almost 11 percent lower than in 2008<sup>2</sup> (this partly reflects the fact that roughly \$40 million in supplemental housing funding was added after the 2008 budget was approved).

**Figure 1: Local Funding for Affordable Housing  
FY 2006-FY 2009\***



\* in millions; all figures are adjusted for inflation to equal FY 2009 dollars

<sup>1</sup>Mayor Fenty also has proposed offering some DC-owned land for the development of affordable housing. When the value of that land is considered, total resources for affordable housing in FY 2009 will be higher than indicated in this analysis. The list of properties that will be contributed has not yet been released.

<sup>2</sup> This partly reflects the fact that roughly \$40 million in supplemental housing funding was added after the 2008 budget was approved.

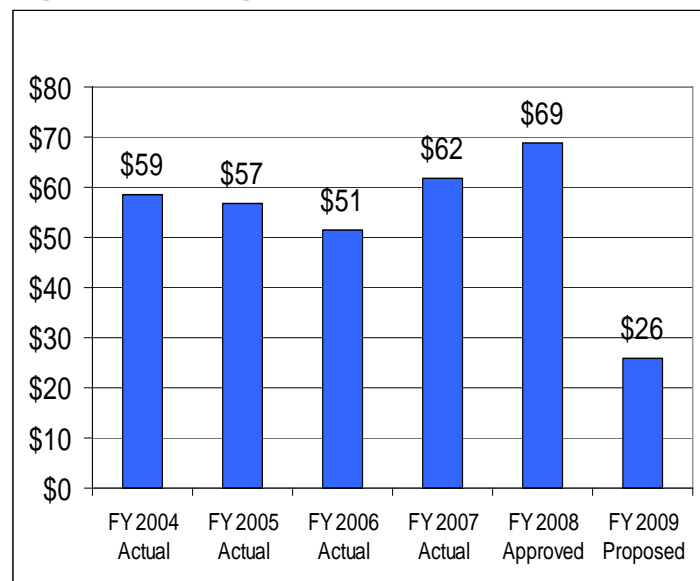
While total funding for housing in FY 2009 is slightly lower than in 2008 it is also higher than in 2007 and far higher than in 2006. This is an indication that the District is making some progress toward meeting the goals of the Comprehensive Housing Strategy Task Force, whose report and recommendations were released that year.

Figure 1 (see previous page) shows the total local funds for affordable housing and the contribution each major fund makes to the total resources. One of the major trends that can be seen in Figure 1 is the declining contribution the Housing Production Trust Fund (HPTF) is making to the total resources for affordable housing for FY 2009. The following section will examine what has happened to the HPTF over time and what effects the decline in resources could have on affordable housing production.

**The Housing Production Trust Fund** supports the construction and renovation of affordable housing. Under legislation enacted in 2002, some 15 percent of deed recordation and transfer taxes are dedicated to the fund each fiscal year. This funding rose substantially after FY 2002, during the District's real estate market boom. In addition, deed tax rates were raised in FY 2007 to expand funding for the HPTF and other housing programs.

When deed taxes were raised in 2007, funding for the Housing Production trust Fund was expected to reach \$76 million in FY 2009. DC's real estate market cooled substantially starting in 2008, however, and this resulted in a sharp decline in support for HPTF. It is now expected that support for the Trust Fun in FY 2009 will be just \$26 million. This is far less than the \$62 million in dedicated deed taxes in 2007 and \$39 million expected in 2008. (Total HPTF funding in 2008 will be \$69 million because the Council provided a \$30 million supplemental appropriation to address the decline in deed taxes.) The FY 2009 funding level would be the lowest since 2003.

**Figure 2: Funding for the HPTF (FY 2004-FY 2009)**



\* in millions, all figures are adjusted for inflation to equal FY 2009 dollars

**Declining funds for the production of affordable housing:** While overall funding for affordable housing in FY 2009 represents a substantial increase since FY 2006, the sharp decline in funding for the Housing Production Trust Fund raises concerns because it is the primary source of support for affordable housing construction and rehabilitation. Both the affordable units produced and, accordingly, the expenditures from the HPTF have increased sharply since FY 2005.<sup>3</sup> This has led to the production of thousands of affordable units since FY 2001.

<sup>3</sup> Rogers and DeLorenzo, "The District's Housing Production Trust Fund has Developed Thousands of Affordable Units Since FY 2001," DCFPI and CNHED, April 20, 2007, available at: [<http://www.dcfpi.org>]

Moreover, the current demands on the HPTF, coupled with the increased uses for it, outweighed the available resources even prior to the recent decline in HPTF funding.<sup>4</sup> With the HPTF already oversubscribed and revenues for the fund continuing to dwindle, the HPTF will need a boost in resources in FY 2009 in order to achieve the same level of success it has had in producing affordable housing in recent years. Without additional support, the District may not be able to support all projects that have received preliminary HPTF awards.

Finally, the DC Council has authorized securitization of up to \$16 million from the HPTF to back bonds that would support New Communities projects. If fully utilized, the securitized funding would account for nearly two-thirds of the HPTF's resources in FY 2009. The current expectation is that only \$6 million will be securitized as of FY 2009, yet even this represents one quarter of the Trust Fund's new resources. The declining funding for the Housing Production Trust Fund either will limit how much it can be used to support New Communities projects or it will require a very large share of the Trust Fund be used for New Communities, greatly limiting other important uses.

**Frozen Funding for Local Rent Supplement Will Limit the Ability to Provide Housing for DC's Lowest Income Households:** The proposed DC Housing Authority subsidy for FY 2009 is \$31 million, the same as in FY 2008. The failure to provide even an adjustment for inflation, which the subsidy had received in FY 2008, may mean that the program may not be able to maintain the number of subsidized units supported in FY 2008. These vouchers often are coupled with housing production subsidies, such as HPTF, in order to make housing affordable to very low-income residents. Without rent subsidies, housing supported by the HPTF typically is affordable to more moderate-income families, such as those earning 50 percent of Area Median Income (\$45,000 for a family of four.) If the Local Rent Supplement is not expanded, this will make it hard to support production of affordable housing that reaches the lowest-income residents with the most severe housing affordability problems.

**The Proposed Unified Housing Fund Raises Concerns:** The proposed budget for FY 2009 would create a new Unified Housing Fund that could be used by DHCD to fund a very broad and loosely defined range of activities linked to affordable housing. The fund would collect revenues from a variety of sources, including repayments of HPAP loans. While this fund may serve an important purpose in consolidating a number of smaller housing funds, the lack of transparency such a fund would create raises concerns. Under the budget proposal, DHCD would have broad discretion over the use of Unified funds, and there would be no requirement to use the funds as they are being used now, such as supporting additional HPAP loans. A better approach is to require funds from the Unified Housing to be appropriated each year, so that the Council and public would have more input on the use of these funds.

Thank you for the opportunity to provide testimony. I am happy to answer any questions.

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<sup>4</sup> *ibid*