

*June 28, 2012*

# LOCAL RENT SUPPLEMENT PROGRAM (LRSP) IN THE DISTRICT OF COLUMBIA

## Overview

The District's Local Rent Supplement Program (LRSP) was created in 2007 to provide housing that is affordable to District residents with very low incomes. LRSP provides monthly rental subsidies that cover the difference between the rents that very low-income families can afford to pay and the actual monthly cost of rent for the unit.

The program stems from the District's 2006 Comprehensive Housing Strategy Task Force goal of creating 14,600 locally funded rental subsidies in DC over 15 years.<sup>1</sup> Funding for LRSP began in FY 2007 and was expanded in FY 2008, allowing it to serve over 1,700 families.

This policy brief provides information on the District's LRSP program. It also identifies two key issues currently facing the program.

- The 2006 Comprehensive Housing Strategy Task Force recommended the creation of the local rent supplement program and that approximately 1,000 new units should be funded each year for 15 years. While the District did follow through and create the program in 2007, funding remained flat between FY 2008-FY2012 which meant that new units were not funded and the District fell far behind its goal of creating nearly 15,000 units in 15 years.
- In recent years, LRSP has been supported by funds from the Housing Production Trust Fund, a separate program used for construction, renovation and acquisition of affordable housing. The HPTF is supported by a portion of DC's deed recordation and transfer taxes and is a volatile funding source—especially in the current economic climate. As LRSP provides ongoing rental assistance, it should not be tied to such as volatile funding source.

## Population Served

The local rent supplement program (LRSP) provides ongoing rental subsidies to help make housing affordable to very low-income families, or those with incomes below 30 percent of area

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<sup>1</sup> Comprehensive Housing Strategy Task Force, "Homes for an Inclusive city: A Comprehensive Housing Strategy for Washington, DC," April 5, 2006, available at: <http://dc-chstaskforce.org/default.asp>

median income. In 2012, this equals \$32,250 for a family of four in DC.<sup>2</sup> Many LRSP families have incomes well below this level.

In order to make the home affordable, the amount that a family pays in rent is limited to 30 percent of their income, the affordability threshold set by the U.S. Department of Housing and Urban Development (HUD). The remainder of the rent is paid with the LRSP subsidy.

For example, a family of four that earns roughly \$25,000 would pay \$7,500 a year, or \$625 a month, towards their rent. If the rental unit cost was \$1,506 a month — the fair market rental cost of a two-bedroom unit in the DC metro area<sup>3</sup> — the LRSP subsidy would equal \$881 per month or \$10,572 for the year.

Table 1: LRSP Size and Utilization			
Program Component	FY 2007	FY 2008	Total Funded Units
Tenant Based	600	80	680
Project/Sponsor	581	457	1038
<i>Project Based</i>	101	129	230
<i>Sponsor Based</i>	480	328	808
<b>Total</b>	<b>1,181</b>	<b>537</b>	<b>1,718</b>
Source: DC Housing Authority			

## Service Provision

LRSP is administered by the DC Housing Authority, which also manages the federal Housing Choice Voucher program (formerly called Section 8), which also provides rental subsidies.

Rental subsidies in the LRSP program are provided in three different ways:

- **Tenant-based vouchers** are provided directly to families or individuals, who can use the voucher for any rental unit under the Fair Market Rent in the District. The voucher stays with the family, even if they decide to move to another rental unit in the District.
- **Project-based vouchers** are provided to for-profit or non-profit developers for specific units that they make available to low-income families. Unlike tenant-based vouchers, these vouchers are not portable and stay with the unit. The units must be made affordable over the life of the project. Although it is not required, many project-based vouchers are awarded to developments that also provide supportive services, such as counseling, to the low-income residents.
- **Sponsor-based vouchers** are awarded to a landlord or non-profit group for affordable units they make available to low-income families. Unlike project-based vouchers, these vouchers are

<sup>2</sup> U.S. Department of Housing and Urban Development, Office of Policy Analysis and Research, Median Family Income, FY 2012, available at: <http://www.huduser.org/portal/datasets/il/il12/index.html>

<sup>3</sup> U.S. Department of Housing and Urban Development, Office of Policy Analysis and Research, Final FY 2012 Fair Market Rent, available at: <http://www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr12>. Fair market rents are used to determine the fair market rental cost of units for the federal Section 8 program which also provides rental subsidies to low-income tenants.

portable and can be moved to another unit run by the non-profit or the landlord. Sponsor-based vouchers are awarded only to groups that agree to provide supportive services to residents housed in the affordable units.

Funding for the LRSP program has authorized the creation of 1,718 affordable units for very low-income families. To date, 1,238 of those units are occupied. The remaining units are in the development pipeline and expected to come online by the end of FY 2012. Most LRSP units are provided through the project and sponsor based components (see Table 2).

LRSP is often used in conjunction with other affordable housing programs in the District, such as the Housing Production Trust Fund (HPTF) and Housing First to help create housing that is affordable to the District's lowest-income residents. The HPTF is the District's main source of funding for construction or rehabilitation of affordable housing, but often LRSP funds are used in conjunction with the HPTF to make units affordable for very low-income residents. LRSP vouchers are also used with the District's Housing First program, which places chronically homeless individuals and families in affordable housing that also provides them with supportive services.

## Budget

The LRSP program began in FY 2007. It is funded by local dollars and managed by the DC Housing Authority (DCHA). Local funds for DCHA support the LRSP program as well as provide support to the DHCA police force and some housing assistance for families. Funding for the program was expanded through FY 2008, which allowed for the creation of over 1,700 units of affordable housing. However, since that time, funding for the program has been used to maintain these units, and until FY 2013 there had not been any additional new units funded. . In FY 2013 however, the DC Council found additional funds to expand the tenant based side of LRSP in FY 2013 and the project and sponsor based side in FY 2014.

In FY 2012, DCHA received just \$4 million in local funds, a \$19 million decrease (or 83 percent) from FY 2011. The FY 2012 budget keeps the local rent supplement program whole by taking \$18 million from DC's Housing Production Trust Fund — DC's stand alone fund for affordable housing construction and renovation — and using those funds to cover the ongoing rental subsidy needs of the LRSP program. When this is factored in, the DCHA subsidy level in 2012 remained at the 2011 level.<sup>4</sup>

The Mayor's proposed FY 2013 budget for LRSP allowed DCHA to maintain the over 1,700 units of affordable housing created through LRSP, but did not provide new funds for new units. Moreover, the Mayor's proposed FY 2013 budget continued the practice of using the Housing Production Trust Fund by allocating an \$20 million from DC's HPTF to DCHA.

The DC Council added \$4 million to DCHA's budget in FY 2013 in order to help move approximately 250 homeless families out of DC's emergency shelter system and into stable housing.

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<sup>4</sup> The local funding for DCHA also helps support DCHA's public safety force as well as provide housing assistance to 500 families.

In addition, the DC Council added \$2 million for project and sponsor based local rent supplement starting in FY 2014. This funding should support the creation of nearly 200-250 units.

## Current Issues

There are two major issues currently affecting LRSP:

- Lack of progress toward comprehensive Housing Strategy Task Force goals
- Relying on Housing Production Trust Fund dollars and reserves to support the program

**Housing Strategy Task Force Goals:** LRSP was first funded in FY 2007. From FY 2007 to FY 2008, funding for the program was expanded substantially which allowed for the creation of roughly 1,700 units of affordable housing. However from FY 2008 through FY 2012, funding has only been adequate enough to maintain the program.

With these funding setbacks, the program made minimal progress in serving additional residents. Under the goal set by the 2006 Comprehensive Housing Strategy Task Force, the city should create roughly 1,000 new subsidies each year. Without additional funding for DCHA between FY 2008 and FY 2012 it meant that the District was nearly 4,200 units behind its goal of 5,900 units in FY 2012, six years after the Task Force report.

In FY 2013, the DC Council did add \$4 million to the LRSP program to help move nearly 250 homeless families out of the shelter system and into housing. In addition, the DC Council added \$2 million into the project and sponsor based side of LRSP starting in FY 2014 that should help create between 200 and 250 units. FY 2013 marks the first time in four years that LRSP will be expanded; however it still leaves DC well behind on the goal to create nearly 15,000 units in 15 years.

**Reliance on Housing Production Trust Fund dollars and reserves to cover program costs:** The District has in recent years relied on funding from the Housing Production Trust Fund (HPTF) to support LRSP. The HPTF is supported by a percent of deed recordation and transfer taxes and is a volatile funding source—especially in the current economic climate. As LRSP is a program that provides ongoing rental assistance, it should not be tied to such a volatile funding source.

LRSP does not include an inflation adjustment even though its costs rise each year due to increases in market rents. Since FY 2008, LRSP has had to rely on its own reserves to pay for increases in rental subsidy levels due to rising rents.<sup>5</sup> The lack of funding also weakens the program's ability to reserve funds for future projects. Inconsistent funding creates insecurity in the development arena in the city, and the program needs a dependable funding source and amount to maintain its capability to serve low-income residents in the District.

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<sup>5</sup> The Budget Support Act of 2009 directed the DC Housing Authority to hold \$5.88 million, plus two months of subsidy payments for all of the awarded LRSP subsidies, in reserves. This has helped LRSP cover the program's cost and make up for the reduction of local funding.