

What's in the FY 2011 Budget for Affordable Housing?

The FY 2011 local budget for affordable housing is \$88 million from a variety of sources. This funding level is essentially unchanged from the FY 2010 approved budget of \$86 million, and it reflects a significant drop in affordable housing funding since 2008, when the city spent \$129 million on these programs. (Unless noted, all figures in this analysis are adjusted for inflation to equal 2011 dollars.)

Moreover, the FY 2011 housing budget is about the same as local funding for affordable housing in FY 2006 — the same year a mayoral housing task force recommended a substantial increase in funding for affordable housing.

The drop in funding for affordable housing since 2008 largely is a result of the falling deed and recordation tax collections that go into the Housing Production Trust Fund (HPTF) — the District's main source for affordable housing construction and preservation. Resources for the HPTF have remained low — and essentially unchanged — since FY 2009. The FY 2011 budget reflects a modest \$1 million increase in HPTF from FY 2010. As a result of the decline in its funding, \$120 million in approved HPTF projects have not been able to move forward, and the District DHCD has not been able to issue a request for new projects since November 2007.

Beyond the reduction in the Housing Production Trust Fund, funding for DC's first-time homebuyer program (HPAP) would fall from \$20 million in FY 2010 to \$19 million in FY 2011, and total funding would be well below the FY 2008 level. Local funding will grow by \$1 million for DC's Local Rent Supplement Program, which provides housing vouchers to make homes affordable to very low-income residents. This will

SUMMARY

MAYOR'S PROPOSED BUDGET

- The FY 2011 proposed budget for affordable housing was \$87 million, which represents essentially no growth in local funds for affordable housing when compared with the FY 2010 approved budget.
- Funding for affordable housing has fallen sharply in recent years, from \$129 million in FY 2008, largely due to the recession and resulting reductions in deed recordation and transfer taxes that go into the Housing Production Trust Fund.

COUNCIL COMMITTEE MARK-UP, MAY 12th

- The Committee on Housing and Workforce Development voted to restore \$2.1 million in cuts to the Home Purchase Assistance Program. Additionally, the Committee directed \$500,000 to foreclosure prevention housing counseling activities. These funds would come from reducing other funds in the housing department.
- The Committee recommended a \$2 million increase in the Local Rent Supplement Program, but did not identify a way to pay for it.

FINAL COUNCIL VOTE, MAY 26th

- The Council added \$1 million to the DC Housing Authority's Budget for the Local Rent Supplement Program. This should provide for an additional 80 units of affordable housing to be built.

allow roughly 80 low-income households acquire safe and affordable housing. Funding for other major affordable housing programs will remain essentially unchanged in FY 2011, including the Permanent Supportive Housing program, which provides housing and case management services to the chronically homeless, and the Bridge Subsidy program, which provides housing to residents with mental illness.

The FY 2011 budget includes a large amount of federal stimulus funding for housing that was approved in FY 2010 and continues to be available. This includes nearly \$23 million intended to offset the loss of value during the recession in Low Income Tax Credits (LIHTC's). This funding will mainly provide gap-financing for non-profit and for-profit developers who were awarded LIHTC's in FY 2007, FY 2008, or FY 2009. DHCD will also receive federal Recovery Act funds for lead abatement, neighborhood stabilization, and funds to help prevent homelessness.

The FY 2011 budget includes several accounting changes that affect the budgets for many agencies. Contracting and human resource functions that had been budgeted in all city agencies in FY 2010 are now included in the budgets for the city's central contracting and personnel agencies. In addition, the FY 2011 budget includes a new centralized agency to reflect DC government rent, utility, and related expenses. Those expenses had been reported in individual agency budgets in FY 2010. To make FY 2011 budget figures comparable with prior-year budgets, this report shifts these fixed costs back to individual agency budgets. For this reason, the figures reflected in this report may not match figures reported in the FY 2011 budget.

Analysis of the Proposed FY 2011 Housing Budget

The District provides affordable housing through a wide range of programs, including construction support to non-profit and for-profit developers to build new affordable housing, assistance to tenants to help them purchase their buildings, down payment assistance to low-income first-time homebuyers, and vouchers to subsidize rents for very low-income residents.

This analysis highlights the following major sources for affordable housing from local District fund: the Department of Housing and Community Development (DHCD), DC Housing Authority Subsidy (DCHA), the Housing Production Trust Fund (HPTF), the Permanent Supportive Housing Program administered by the Department of Human Services, and a housing program administered by the Department of Mental Health (DMH).

Figure 1 shows the change in total local funding for affordable housing from FY 2006 – FY 2011. It shows that funding for affordable housing increased from FY 2006 through FY 2008, fell sharply in FY 2009 and FY 2010 and essentially remained at the FY 2010 level in FY 2011. The large increase in FY 2008 is mainly attributed to a \$30 million allocation to the HPTF from the DC Council when it passed a supplemental budget. As described in more detail below, the reductions since then include funding cuts in the three major housing programs – Housing Production Trust Fund, Local Rent Supplement Program, and Home Purchase Assistance Program –which were offset in part by new funding provided to create the Permanent Supportive Housing Program.

FIGURE 1: LOCAL FUNDING FOR AFFORDABLE HOUSING IS FLAT IN FY 2011

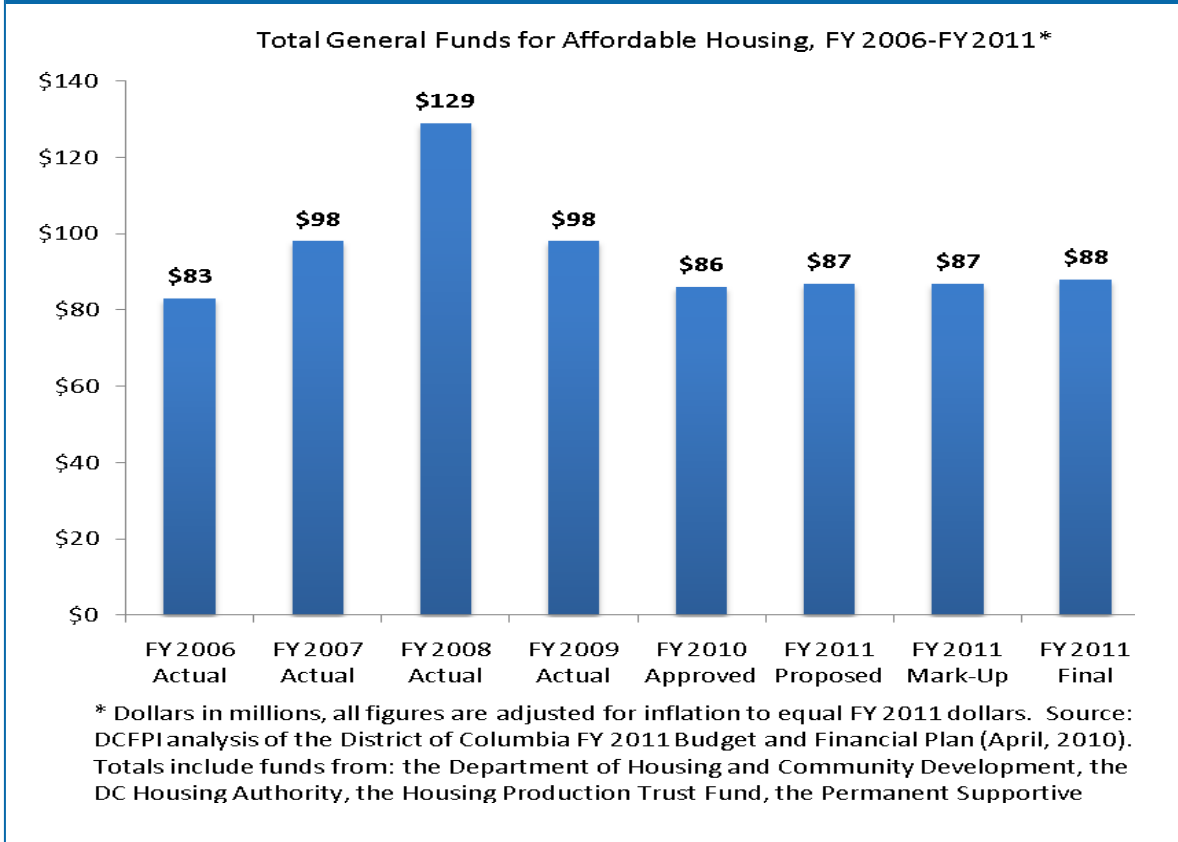


FIGURE 2: HOW THE FY 2011 BUDGET FOR AFFORDABLE HOUSING IS DIVIDED

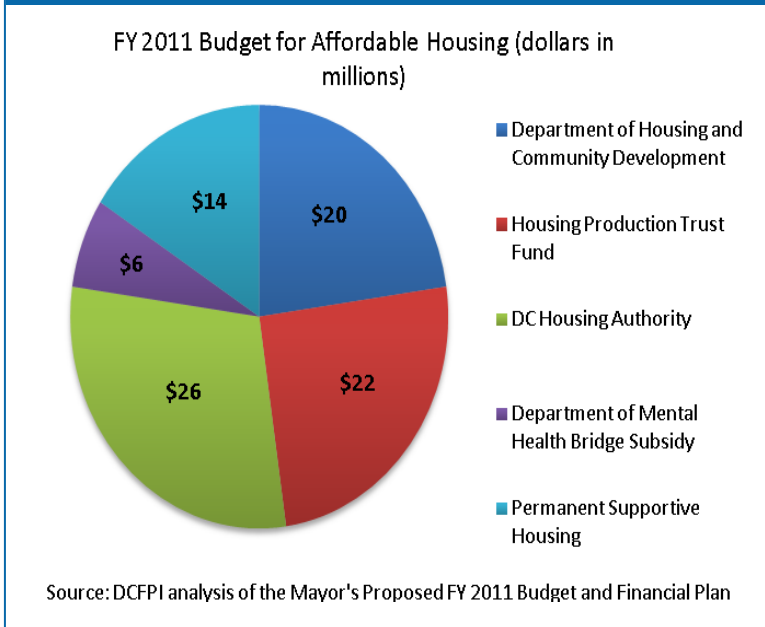


Figure 2 shows the contribution each of the major affordable housing sources funded from District local funds makes to the total \$87 million in funding for affordable housing in FY 2011. Figure 3 (next page) looks at the change in funding for each of the major affordable housing sources from FY 2006-FY 2011.

The Department of Housing and Community Development

The Department of Housing and Community Development (DHCD) manages a variety of programs — both local and federal — to finance, develop, and preserve affordable

housing and homeownership for low-income DC residents. DHCD also works to revitalize DC neighborhoods through economic development of disadvantaged neighborhoods.

FIGURE 3: CHANGES IN FUNDING FOR THE DISTRICT'S MAJOR SOURCES OF AFFORDABLE HOUSING FUNDING, FY 2006-FY2011

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Approved	FY 2011 Proposed	FY 2011 Mark-Up	FY 2011 Final
Department of Housing and Community Development	\$14	\$6	\$20	\$17	\$21	\$20	\$20	\$20
Department of Mental Health Bridge Subsidy	\$4	\$4	\$4	\$6	\$6	\$6	\$6	\$6
Housing Production Trust Fund	\$53	\$63	\$73	\$29	\$21	\$22	\$22	\$22
DC Housing Authority	\$12	\$25	\$32	\$32	\$25	\$25	\$25	\$25
Permanent Supportive Housing	\$0	\$0	\$0	\$14	\$12	\$14	\$14	\$14
TOTAL:	\$83	\$98	\$129	\$98	\$86	\$87	\$87	\$88

Funding for First-Time Homebuyer Programs. Total local funding for DHCD in the Mayor's proposed budget reflected a 5 percent reduction in FY 2011, falling from \$21 million in FY 2010 to \$20 million in FY 2011.

A substantial share of funding within DHCD is devoted to home buying assistance programs, the largest of which is the Home Purchase Assistance Program (HPAP). HPAP provides down-payment and closing cost assistance to help low-income first-time homebuyers.¹ In FY 2011, the Mayor's proposed budget for home-buying assistance programs totaled \$17 million, including both local and federal funds (see figure 4). This is 15 percent lower than the total approved FY 2010 budget of \$20 million. Proposed total funding for home purchase assistance programs in FY 2011 was the lowest since FY 2006.

The Council's Committee on Housing and Workforce Development restored the \$2.1 million that was cut from the HPAP budget by directing DHCD to shift \$2.1 million to the program from its Unified Fund (a fund that collects miscellaneous income sources from DHCD). The Unified Fund supports the Property Acquisition and Disposition division which acquires and sells property for DHCD. Even with this increase, funding in 2011 will be at the lowest level since 2006.

It is worth noting that the HPAP program will be supported in 2011 in part with use \$2.8 million in federal Recovery Act funds — through the second round of Neighborhood Stabilization Funds. Moreover, these funds are restricted for use in three neighborhoods: Ivy City/Trinidad, Deanwood, and Anacostia.

¹ The home purchase assistance programs also contain smaller pots of funding for the Employer Assisted Housing Program (EAHP), which provides home purchase assistance to DC government employees and home buying assistance for DC Police Officers. In addition, a new program is available in FY 2011 to help DC government employees whose positions are covered by collective bargaining agreements, purchase homes. This program is called the Negotiated Employee Affordable Home Purchase Assistance program (NEAHP).

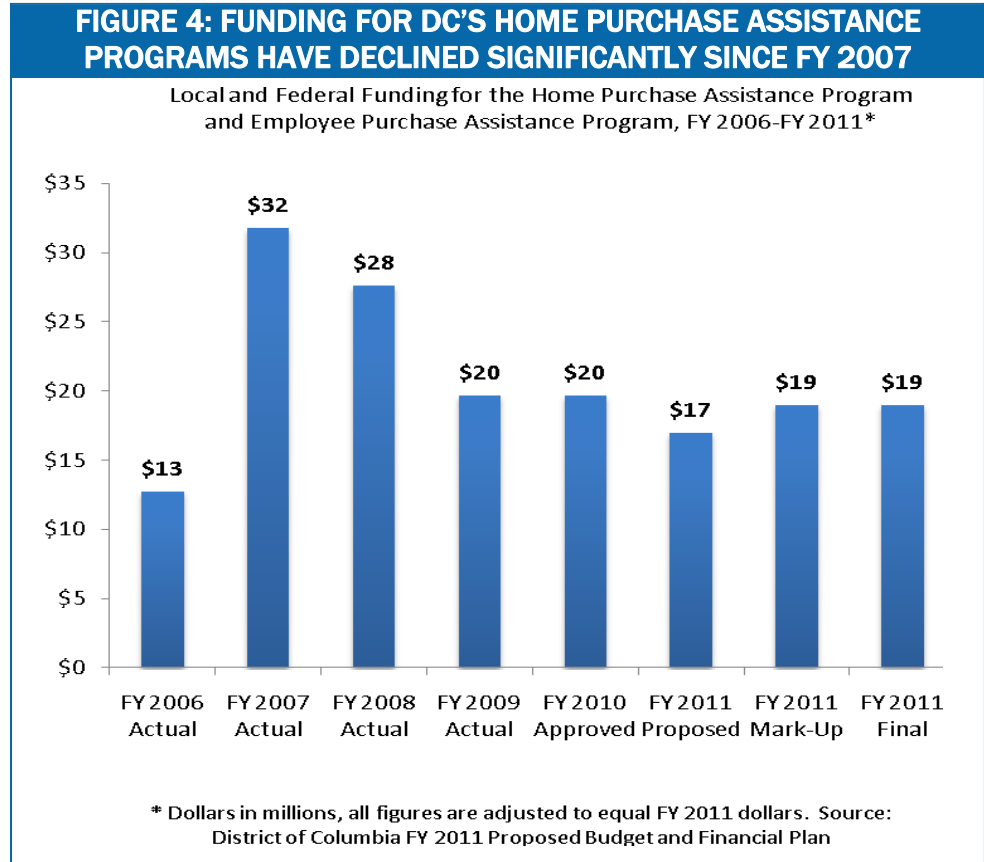
Funding for HPAP increased substantially in FY 2007 and FY 2008, which supported an increase in the number of families served, as well as an increase in the maximum HPAP loan — from \$30,000 to \$70,000.

As funding for HPAP has fallen, the District has chosen to reduce the loan amounts from \$70,000 to \$40,000 in order to continue to try and serve more individuals. The total number of first-time homebuyers

receiving HPAP loans also has fallen with the reductions in funding. In FY 2008, 508 first-time home-buyers were funded with HPAP. By FY 2009, that number had fallen to 320. For FY 2010 DHCD estimates that they will serve 300 first-time homebuyers and for FY 2011, 500 first-time home buyers. Yet, with a reduction increase the HPAP budget in FY 2011, it is not clear how the program will serve an additional 200 first-time homebuyers.

Another major function of DHCD is the financing of rental and homeownership opportunities for low-income District residents. This is largely done through the Affordable Housing Project Financing (AHPF) and the Tenant Opportunity to Purchase (TOPA) programs within DHCD. In FY 2011, the proposed local budget for the AHPF program is just \$2 million, which largely supports administrative costs. But it has a much larger “gross funds budget,” which includes federal funds and intra-District funds², of \$66 million. This is an increase of \$35 million from FY 2010, but largely reflects \$21 million proposed to be transferred from the Housing Production Trust Fund (HPTF) into DHCD’s budget. The HPTF has always been managed by DHCD; but it had previously been budgeted separately from DHCD.

The remaining funds for Affordable Housing Project Financing are federal dollars and largely represent federal Recovery Act funds that the District began receiving in FY 2010. The majority of these funds are aimed at boosting funding for the Low Income Tax Housing Credit Program (LIHTC) — a federally funded program managed by DHCD — that experienced severe declines from the nationwide housing market collapse. The Recovery Act funds are intended to bring value



² Intra-District funds are funds that are transferred from one DC agency to another.

of the LIHTC's back up to where there were before the collapse. This means that this funding will support projects that had been awarded LIHTC's before the recession but are unlikely to be used to support new housing projects

The FY 2011 proposed budget for the Tenant Opportunity to Purchase program is just \$81,000 and will cover only administrative support for the program. The TOPA program assists tenant organizations exercise their first-right of purchase when a landlord wants to sell their building, by providing counseling, earnest money deposits, and loans. Given the limited local funding — and limited availability of other funds often used to support tenant purchase, such as Housing Production Trust Fund or federal Community Development Block Grant funds — it appears that the FY 2011 budget will not be able to support tenant purchase efforts at a meaningful level, if at all.

Finally, the FY 2011 budget includes \$500,000 for foreclosure prevention housing counseling activities. The Council Committee on Housing and Workforce Development directed that \$500,000 of funds from DHCD's "Community Services" program go for this purpose. The community services program provides funding for counseling services to potential homeowners, and tenants. Advocates testified at DHCD's budget oversight hearing that they were seeing an increase in the number of DC residents being affected by foreclosures.

The Housing Production Trust Fund

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 HPTF and other housing programs. However, DC's real estate market cooled substantially starting in 2008 and this resulted in a sharp decline in support for HPTF.

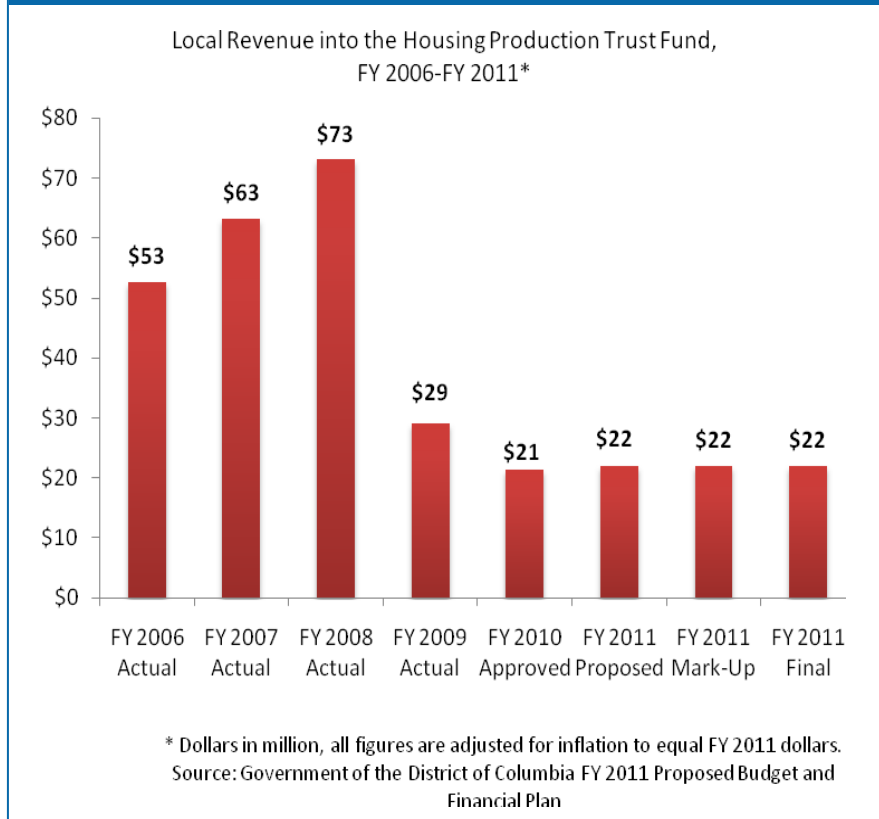
The Mayor's proposed budget directed \$22 million of the Housing Production Trust Fund (HPTF), based on 15 percent of expected deed recordation and transfer taxes. This is a modest \$1 million higher than in FY 2010. The Council did not modify this funding level (See figure 5). Funding into the HPTF rose substantially through 2008, reaching \$73 million that year. (This included a special one-time \$30 million appropriation into the fund.) But as the real estate market began to weaken in 2008; support into the HPTF fell significantly. Funding for the Trust Fund has hovered near \$20 million since FY 2009. The funding in recent years has been lower than any year since 2003.

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 expenditures from the HPTF increased sharply from FY 2005.³ For example, expenditures from the Trust Fund totaled \$70 million in FY 2007, and the Trust fund has supported the construction or rehabilitation of 6,700 affordable homes — with another 1,600 underway.

³ Lazere and Pohlman, "Affordable Housing in the District Depends on a Stable Housing Production Trust Fund," DCFPI and CNHED, October 20, 2008, available at: <http://dcfpi.org/?p=238>

Now that funding into the HPTF has fallen, the demands on the HPTF far outweigh available resources. This means that many affordable housing projects that are ready to be built are not able to get the funding they need. In fact, as of September 2009 the HPTF had a balance of \$65 million, but \$62 million of that funding is expected to be spent by September 2010 and an additional \$92 million would be needed in September 2009 just to finance all of the projects that were ready to be developed in the pipeline. Because of these demands, affordable housing project needs outweighed available HPTF resources by at least \$89 million in September 2009.⁴

FIGURE 5: FUNDING FOR THE HOUSING PRODUCTION TRUST FUND HAS FALLEN DRAMATICALLY SINCE FY 2008



Another problem facing the HPTF is that the District relies on it to help fund its New Communities initiative by securitizing up to \$16 million from the HPTF annually for New Communities. New Communities is a multi-year program that tears down existing subsidized housing complexes and replaces them with mixed-income housing. Of the \$22 million in resources into the HPTF in FY 2011, \$7 million is expected to be used to secure bonds for the District's New Communities initiative. This is a concern because it means that nearly one-third of the HPTF's total resources will be reserved for New Communities and leaves just \$15 million for core HPTF functions in FY 2011.

Without additional support, the District very likely cannot support all projects that have received preliminary HPTF awards or support the growing backlog of projects needing funding. In fact, because of the falling deed tax revenues into the HPTF, DHCD has delayed issuing a new request for proposals (RFP) until 2009.⁵ The last comprehensive RFP was issued in November of 2007.

A final challenge that limits the ability of the HPTF to finance new affordable housing developments is that the Mayor proposed increasing the share of HPTF resources allocated for administrative costs. This comes just one year after DHCD raised the administrative allocations from five percent to 10 percent of total HPTF resources. The FY 2011 Budget Support Act

⁴ Ibid

⁵ Lazere and Pohlman

proposed to raise this allocation to 15 percent of available resources.⁶ The DC Council accepted this proposal in its final budget vote. The decision to increase the share of HPTF funds devoted to administration further reduces the amount of funding available to support affordable housing projects.

The rapid decline in funding for the Housing Production Trust Fund in recent years indicates that the volatility of the deed taxes makes them an unstable way to fund the Trust Fund — and that a more stable funding source is needed to enable the HPTF to continue meeting its housing production purpose.

The Committee directs DHCD to produce an annual report that shows the total amount of money spent by DHCD for both the acquisition and production of affordable housing. The report will require DHCD to report how much money was spent on affordable homeownership, affordable rental housing, and at what levels of affordability, among other items.

The DC Housing Authority Local Subsidy

The DC Housing Authority (DCHA) operates the federal public housing and Housing Choice Voucher programs. Since FY 2006, the District has provided local funds to DCHA to help cover a shortfall in federal funding for the voucher program, security forces at DCHA managed buildings, and to support a new Local Rent Supplement Program (LRSP), following a recommendation of the city's 2006 housing task force for nearly 15,000 new rent subsidies over 15 years.

Mayor's Proposed Budget: The Mayor's proposed DC Housing Authority subsidy for FY 2011 was \$24.8 million, a reduction of \$280,000 from the FY 2010 approved budget of \$25.1 million. The reduction in funding is targeted towards administrative costs associated with Housing Choice Voucher program and the Local Rent Supplement Program. The FY 2011 funding level is essentially the same funding level as FY 2010, but represents a \$6 million reduction in funding from FY 2009.

With this funding level, DCHA would be able to continue funding all current commitments in FY 2011, including some projects that have been awarded contracts but have yet to move forward because of financing difficulties, by using \$6 million in unspent funds carried over from prior years. The funding is expected to continue to support the roughly 1,750 units—that are either occupied or have funding commitments—that are subsidized with LRSP vouchers. Even with the carry over funds though, no new contracts for affordable housing projects or new local rent supplement vouchers can be issued in FY 2011.⁷

⁶ The administrative allocation would be reduced back to 10 percent in FY 2012. It is worth noting that the FY 2011 budget chapter for DHCD mentions that the administrative cost allocation would be increased to 20 percent. It is not clear at this point what the final proposed increase is.

⁷ The FY 2010 Budget Support Act also included a provision to direct \$11 million in remaining reserve funds to support the construction costs of some projects slated to also receive LRSP subsidies when completed. LRSP funds are not typically used for construction financing, however, there was recognition that funds were needed to support the many projects that were awarded LRSP subsidies, but could no longer obtain financing because of the economic recession and reduction in HPTF funds.

Council action: In its final vote on the budget, the DC Council added \$1 million to the Local Rent Supplement Program. This additional funding represents the first increase to the program since FY 2008 and should help provide an approximately 80 additional units of affordable housing.

Even so, the FY 2011 funding level is barely higher than the FY 2008 funding level, the relatively flat funding for the DCHA has several implications:

- **Minimal progress in reducing housing waiting lists.** Some 26,000 households are on the DCHA waiting list, and Mayor Fenty has supported the goal of eliminating it. With \$1 million in additional funding for LRSP, the FY 2011 budget will make only a small dent in reducing the waiting list.
- **Failure to make progress in the goal to fund 14,600 subsidies in 15 years.** Under this goal set by the 2006 Comprehensive Housing Strategy Task Force, the city should create roughly 1,000 new subsidies each year. To date, the District has funded roughly 1,750 households under the Local Rent Supplement Program. With \$1 million serving an additional 80 households, in FY 2011 that the District will be nearly 3,070 units behind its goal of 4,900 units in FY 2011, five years after the Task Force report.
- **Limited effectiveness of other housing programs.** LRSP 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 (\$51,350 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 LRSP program will likely not be able to sustain commitments if it does not receive at least an increase in inflation starting in FY 2012.** Since FY 2009, the LRSP program not received an adjustment for inflation and has had to rely on its own reserves to cover rent increase. If the \$1 million in new funding in FY 2011 is used to serve additional households, as expected, it is likely that reserves will run out at the end of FY 2011. Without an increase for inflation in FY 2012, the program may not be able to continue to serve all existing voucher recipients.

Other Affordable Housing Funding in the FY 2011 Budget

Affordable housing programs are also carried out in two other agencies, through the Bridge Subsidy Program at the Department of Mental Health and the Permanent Supportive Housing program within the Department of Human Services.

Bridge Subsidy

The Bridge Subsidy program at the Department of Mental Health is designed to help individuals ‘bridge’ from temporary housing into long-term stable housing by providing them transitional housing and services to help them move towards independent living. In FY 2011, the Bridge

Subsidy Program will receive \$6 million and represents the third year the program has received flat funding.

This flat level of funding for the last three years means that no new residents can be enrolled in the program in the current fiscal year — FY 2010 — or in FY 2011. Currently, the bridge subsidy program provides services for approximately 750 people. Without an adjustment even for inflation in FY 2011 and beyond, it is not clear how the program can continue to serve the same number of participants.

In its budget deliberations, the DC Council did not modify the Mayor's proposed funding for Bridge Subsidy program.

Permanent Supportive Housing

The Permanent Supportive Housing Program, known as Housing First, was created in FY 2009 with \$19 million to place chronically homeless individuals and families into permanent supportive housing with case management services. The program contained a capital component for site acquisition and renovation needs and an operating component for case management services and ongoing operating costs such as rental subsidies.

For FY 2011, the Mayor's proposed local budget would provide \$14 million for PSH for operating costs and case management services, a \$2 million increase in local funds from FY 2010 local budget of \$12 million. However, the program is also funded with federal dollars, which are expected to decrease from \$17 million in 2010 to \$10 million for 2011. As a result, total net funding for PSH is essentially down for FY 2011. The program is expected to continue to be able to house and support the 620 individuals and 80 families that are expected to be placed by FY 2010, but that it will not be able to house any new individuals or families in FY 2011. The program also does not project an increase in the number of families or individuals served in FY 2012.

In its budget deliberations, the DC Council did not modify the Mayor's proposed funding for Permanent Supportive Housing.