

*April 26, 2012*

## WHAT'S IN THE MAYOR'S FY 2013 PROPOSED BUDGET FOR AFFORDABLE HOUSING?

The Mayor's FY 2013 proposed general fund budget for affordable housing is \$89 million from a variety of sources. This represents a \$1 million decrease, or 1 percent, from the fiscal year 2012 budget, after adjusting for inflation. While most programs would remain unchanged the FY 2013 budget proposes a significant cut to DC's Housing Production Trust Fund — DC's main source for affordable housing construction and renovation — for the second year in a row. This cut could significantly weaken the District's capacity to produce and renovate affordable housing in the future.

The proposed FY 2013 housing budget is one-third lower than affordable housing expenditures in FY 2008

The one increase in housing funding is in the Department of Mental Health's Home First program, which would increase by \$1.2 million to include funding to support 100 new affordable housing units. These units are required as part of the District's exit from a class action lawsuit, commonly known as "Dixon."

The District has created a variety of affordable housing tools, each serving a specific purpose and each critical to make housing available all along the continuum of affordable housing needs — from homelessness to homeownership — for DC's low- and moderate-income residents. Many of these tools have been developed or revived over the past decade and were endorsed by DC's 2006 Comprehensive Housing Strategy Task Force, which issued a fifteen-year blueprint to create and preserve more affordable housing in the District.

### SUMMARY

#### MAYOR'S PROPOSED BUDGET

- The Mayor's fiscal year 2013 proposed local budget for affordable housing is \$89 million, which represents a decrease of one percent over the FY 2012 budget, after adjusting for inflation. The proposed 2013 funding level is one-third lower than in 2008.  
  
Most programs would be funded at their prior year levels. The exceptions are the Housing Production Trust Fund which would see a significant cut for the second year in a row, and the Department of Mental Health's Home First program which would see a modest increase.
- The Mayor's FY 2013 proposes a cut of \$20 million from DC's Housing Production Trust Fund (HPTF) — DC's main source for affordable housing construction and renovation — in FY 2013 and future years.
- The budget would increase the Department of Mental Health's Home First program by \$1.2 million, providing 100 additional affordable housing units.
- The budget also proposes to start phasing out of a portion of the Local Rent Supplement Program. LRSP is DC's main tool to make housing affordable to very low-income residents. The FY 2013 budget would change the program so that as families leave the tenant-based side, no new families can join.

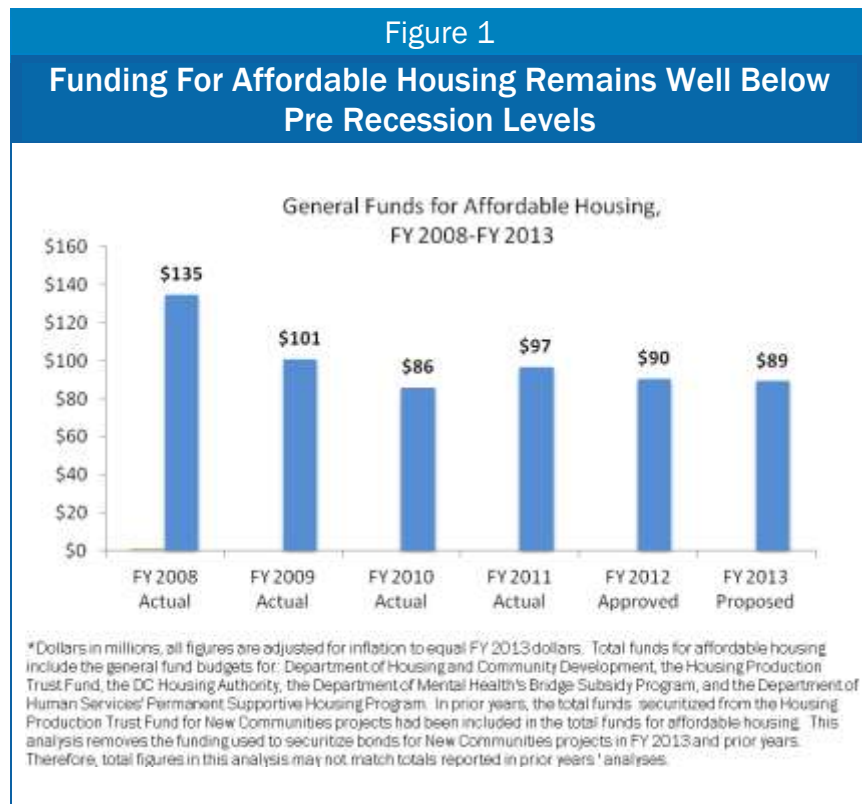
These tools include:

- **The Housing Production Trust Fund** which finances affordable housing construction and renovation, and also provides financial support to tenants who want to purchase their building when it goes up for sale.
- **The Local Rent Supplement Program** which provides a rental subsidy to help very low-income residents, those making less than \$30,000 a year — live in affordable homes.
- **The Permanent Supportive Housing Program** which provides supportive housing for chronically homeless individuals and families.

As a result of the Great Recession, the city's affordable housing tools have been largely dormant and funding has been used to maintain most programs at their prior-year levels. The exception is the Housing Production Trust Fund, where resources fell significantly when the recession hit and have remained low for some time. HPTF is supported by 15 percent of DC's deed recordation and transfer taxes, which dropped sharply in the downturn. However, for the second year in a row, the HPTF faces a significant cut.

## Analysis of the Proposed FY 2013 Housing Budget

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

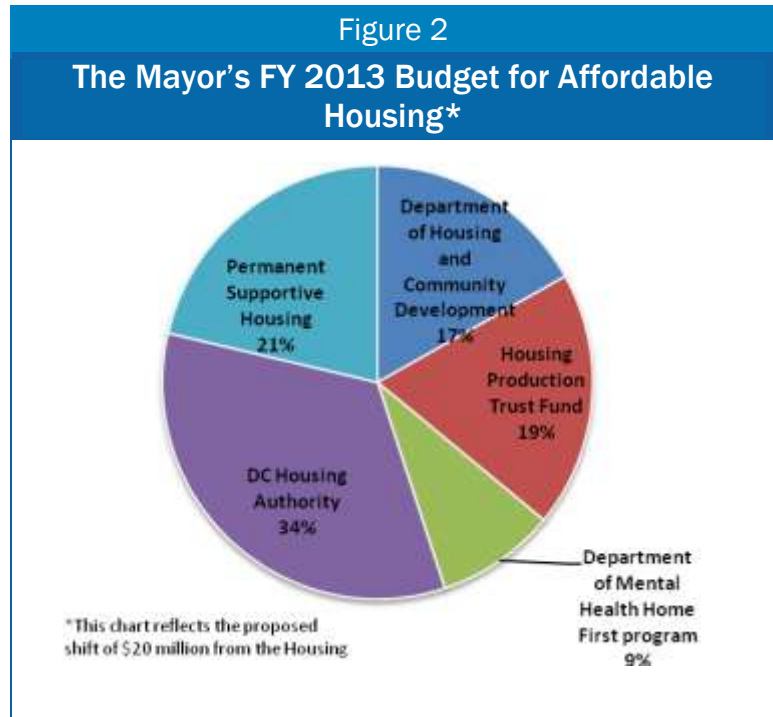


This analysis highlights the following major sources for affordable housing from local District funds: the Department of Housing and Community Development (DHCD), DC Housing Authority Subsidy (DCHA), the Housing Production Trust Fund (HPTF), the Permanent Supportive Housing Program administered by the 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 2008 – FY 2013. Local funding for affordable housing peaked in FY 2008 (the FY 2008 figure includes a \$30 million allocation to the HPTF approved in a supplemental budget), but then fell sharply in FY 2009 and further in FY 2010. Total funding for FY 2013 is \$89 million, a 1 percent decrease over FY 2012 and a nearly 35 percent cut since FY2008.

Figure 2 shows the contribution each of the major affordable housing sources funded from District local funds makes to the total \$89 million in funding for affordable housing in FY 2013.

Table 1 (previous page) looks at the change in funding for each of the major affordable housing sources from FY 2008-FY 2013.



### 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. The major programs DHCD operates with local dollars are: the Home Purchase Assistance Program (HPAP) which provides low-interest loans to low-income, first-time homebuyers; the Housing Production Trust Fund (HPTF) which is DC’s main source for affordable housing construction and renovation; and Tenant Opportunity to Purchase (TOPA) which helps low-income tenants purchase their buildings when they go up for sale. DHCD also spends local dollars to revitalize DC neighborhoods through the economic development of disadvantaged neighborhoods.

Total local funding for DHCD is proposed to be \$15 million in FY 2013, a decrease of 25 percent from \$20 million in FY 2011, after adjusting for inflation. The decrease is largely from the removal of \$3.3 million in one-time funding from DCHD’s unified fund and a Home Purchase Assistance Program (HPAP) repayment account. The unified fund collects payments from a variety of affordable housing programs; the HPAP repayment account collects repayments of principal and interest of HPAP loans. The other notable decrease comes from a proposed \$1.4 million reduction to local funds from the elimination of the small business technical assistance grant. This grant provides funds to organizations that provide technical assistance, support and training to small business in the District.

**Table 1**  
**Changes in Funding for DC's Main Affordable Housing Sources, FY 2008 – 2013\***

	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Approved	FY 2013 Proposed
<b>Department of Housing and Community Development</b>	\$21	\$17	\$28	\$18	\$20	\$15
<b>Housing Production Trust Fund</b>	\$76**	\$31	\$14	\$37	\$18	\$17
<b>DC Housing Authority</b>	\$33	\$34	\$27	\$24	\$22	\$30
<b>Permanent Supportive Housing</b>	\$0	\$14	\$10	\$11	\$23	\$19
<b>Department of Mental Health Bridge Subsidy</b>	\$4	\$6	\$7	\$7	\$7	\$8
<b>Total</b>	<b>\$135</b>	<b>\$101</b>	<b>\$86</b>	<b>\$97</b>	<b>\$90</b>	<b>\$89</b>

\* Dollars are in millions, adjusted for inflation to equal FY 2013 dollars. This table assumes the FY 2013 proposed budget cut of \$20 million to the Housing Production Trust Fund and shift of \$20 million to the DC Housing Authority. In prior years, the total funds securitized from the Housing Production Trust Fund for New Communities projects had been included in the total funds for affordable housing. This analysis removes the funding used to securitize bonds for New Communities projects in FY 2012 and prior years. Therefore, total figures in this analysis may not match totals reported in prior years' analyses. \*\* Figure includes \$30 million one-time appropriation into the HPTF from the FY 2008 supplemental budget.

In addition, the agency's federal grant funds were significantly reduced in FY 2013. As explained in further detail below, when the reductions to both local and federal funds are taken together, proposed funding for several of the major programs DHCD manages is significantly reduced from FY 2012.

### Home Purchase Assistance Program (HPAP)

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.<sup>1</sup> Gross funding for HPAP in FY 2013 — federal and local funds combined — will fall from \$17 million to \$12 million, a 31 percent decrease from FY 2012.

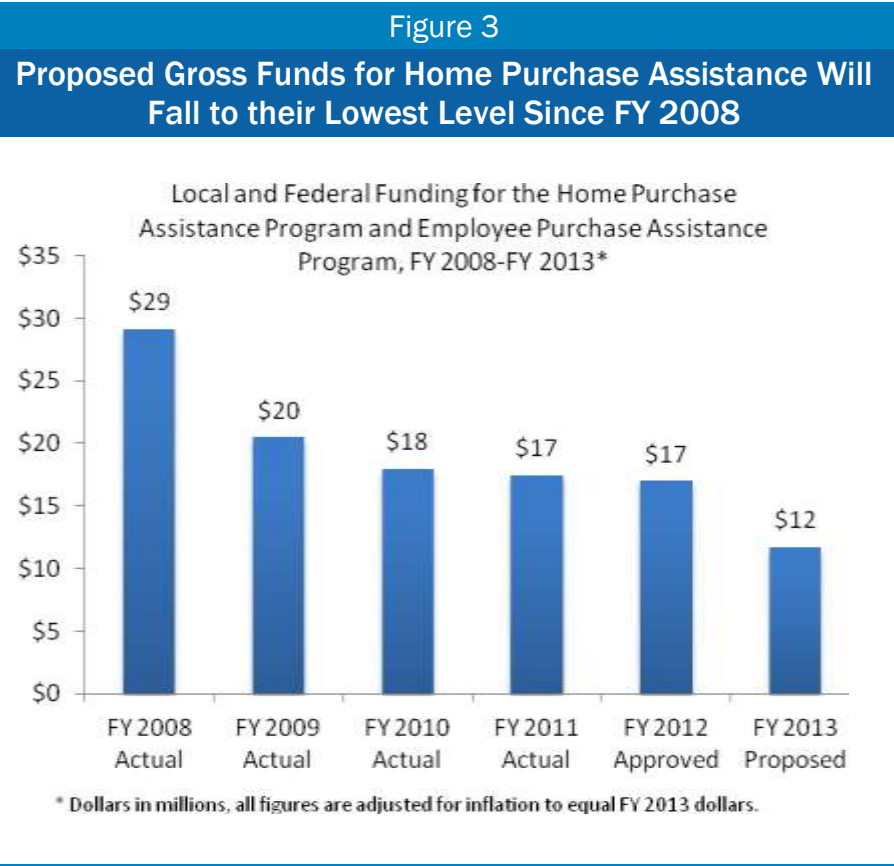
Funding for HPAP increased substantially in FY 2007 and FY 2008, which supported an increase in the number of families served, as well as an increase in the maximum HPAP loan from \$30,000 to \$70,000. Yet during the recession, the resources for HPAP have fallen. In response, the District has chosen to reduce the loan amounts from \$70,000 to \$40,000 in order to continue to try and serve more individuals.

<sup>1</sup> 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).

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 2011, that number had fallen to 223. In FY 2012 and FY 2013 DHCD projects to serve 500 first-time homebuyers in each fiscal year, yet without an increase in funding it is not clear how this will occur.

### Affordable Housing Project Financing

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) division. The major local programs that support affordable housing financing are the Housing Production Trust Fund (HPTF), and the Tenant Opportunity to Purchase (TOPA) programs. The Mayor’s FY 2013 budget proposes to cut \$20 million in new funding for the HPTF in FY 2013 and in future years. This is on top of the \$18 million cut from the HPTF in FY 2012.



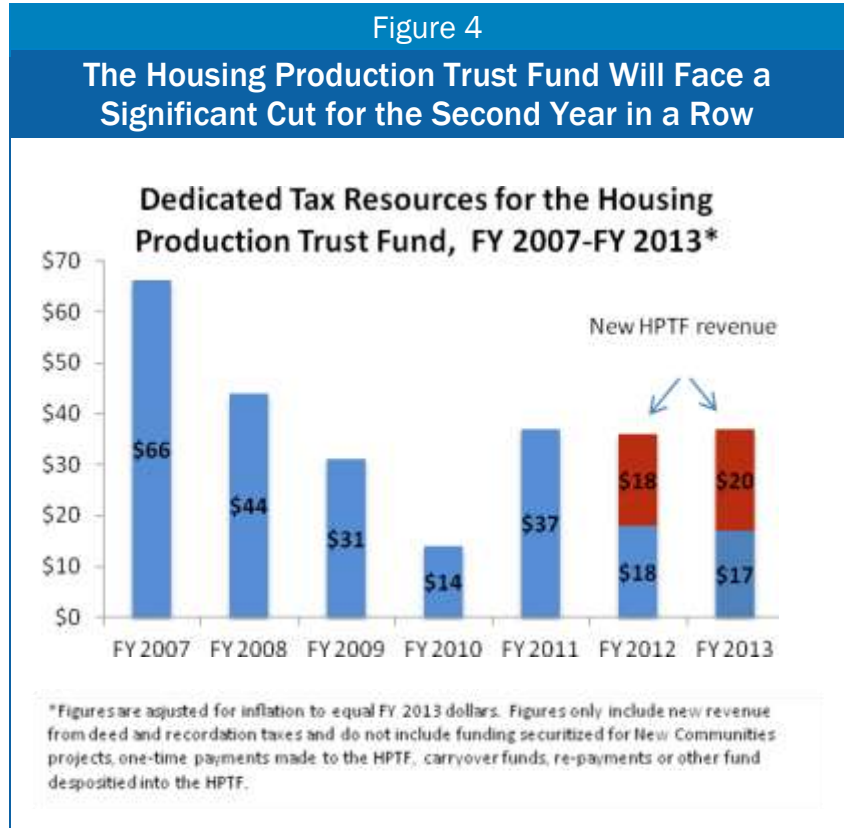
### Housing Production Trust Fund (HPTF)

The Housing Production Trust Fund (HPTF) 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. Beginning in FY 2011, DC’s real estate market began to heat up again and as a result of several large commercial property sales and an increase in single-family home sales (see figure 3).

The Mayor’s budget proposes to take \$20 million in new funding for the HPTF in FY 2013, and in future years as well. Beyond this cut, other demands on the HPTF will mean that from FY 2013-FY 2016, the capacity of the city to support affordable housing construction, preservation, or to support tenant purchase efforts would be significantly restricted. (See Table 2)

Some \$45 million in deed taxes will flow into the Trust Fund in 2013, but due to a variety of factors, including new proposals in Mayor Gray’s proposed budget, only \$9 million would be available for its core purposes. This amount would actually fall further through 2016.

- The District has the authority to use up to \$16 million annually to borrow funds to support the New Communities initiative. New Communities is a multi-year program that tears down existing subsidized housing complexes and replaces them with mixed-income housing. Of the \$45 million in resources into the HPTF in FY 2012, \$8.2 million is expected to be “securitized” used to secure bonds for the District’s New Communities initiative.



- The FY 2013 budget proposes to remove \$20 million in new revenue and transfer it to the DC Housing Authority to fund DCHA’s Local Rent Supplement Program.
- The FY 2012 budget expects to take another \$8 million for administrative purposes leaving just \$9 million— out of \$45 million— for core HPTF purposes.

The Trust Fund went through a rapid decline in recent years and tens of millions of dollars of affordable housing projects were stuck in the development pipeline as a result. DHCD has largely been able to fund many of the projects that are left in the pipeline through this fiscal year, and will likely have some additional funds that they will be able to award from FY 2011. However, because of the proposed \$20 million cut to the HPTF in FY 2013 and future years, the District’s future capacity to finance the preservation and development of affordable housing will be significantly reduced.

Additionally, because funding for the HPTF has been so volatile, trying new programs that require ongoing subsidies each year to the HPTF puts funding for those efforts at risk and makes it possible that in some years, no funds could be available for core HPTF purposes.

**Tenant Opportunity to Purchase 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 funding for the Housing

Table 2				
The Housing Production Trust Fund's Capacity will be Significantly Reduced Over the Next For Years*				
	FY 2013	FY 2014	FY 2015	FY 2016
New Resources from dedicated taxes	45.4	45.4	45.4	46.4
Less: Debt Service on Revenue Bonds	(8.2)	(10.9)	(13.5)	(16.0)
Total Subsidy	37.2	34.5	31.9	30.4
Less: Transfer of Funds to DCHA	(19.9)	(19.9)	(19.9)	(19.9)
Net for HPTF Activities	17.3	14.6	12	10.5
Less: Administrative Costs	(8.6)	(8.6)	(8.6)	(8.6)
Available for core HPTF purposes	<b>\$8.7</b>	<b>\$6</b>	<b>\$3.4</b>	<b>\$1.9</b>
* Dollars in millions. Source: All figures except debt service on revenue bonds are from the FY 2013 Budget and Financial Plan. Administrative costs are estimated based on available FY 2013 figures. The source of the figures for the debt service on revenue bonds are estimates from the Office of the Chief Financial Officer's Office of Budget and Planning.				

Production Trust Fund and federal reductions to the federal Community Development Block Grant funds — two of the major sources for TOPA funding — it appears that the FY 2013 budget would not be able to support tenant purchase efforts at a meaningful level.

### 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, to fund 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.

The proposed DC Housing Authority subsidy for FY 2013 is \$30 million, an \$8 million increase from FY 2012. However, these additional local funds are needed simply to maintain the DCHA programs and services the local subsidy supports. This is because DCHA relied on its own reserves to cover some of these costs in prior years, but those reserves will largely been depleted by the end of FY 2012.

In addition, similar to FY 2012, the FY 2013 budget proposes to fund the local rent supplement program by taking \$20 million from the Housing Production Trust Fund (HPTF) which is intended to fund affordable housing construction, renovation, and tenant purchase. In FY 2012, \$18 million of HPTF funds were used to keep the LRSP program whole. When LRSP was first created by the District it was supported with local dollars.

Lastly, the FY 2013 Budget Support Act — the legislation that accompanies the budget request in order to make any statutory changes needed to pass the budget into law— proposes to end the portion of the local rent supplement program that provides vouchers that recipients can use at any qualified rental unit in DC, similar to the federal Housing Choice Voucher program. LRSP also includes “project-based” and “sponsor-based” components which provide rental subsidies to housing developers — usually non-profits — to operate rental units and in many instances, provide supportive services.

The proposed 2013 budget would phase out the tenant side of the LRSP program— a program currently serving over 600 families— by not allowing new families to enter the program once a family leaves. This change will restrict one of the main ways that DC can reduce the number of families on the DCHA waiting list, which is currently at nearly 50,000 households.

These changes have several implications:

- **No progress in reducing housing waiting lists.** Some 50,000 households are on the DCHA waiting list. Without additional funding for LRSP, and by reducing the capacity of the program to serve low-income DC families, the FY 2013 budget will not make a dent in reducing the waiting list. In fact, the waiting could grow as a result of these budget choices.
- **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 1,700 households under the Local Rent Supplement Program. Without additional funding for DCHA in FY 2013 — and by changing LRSP policy so no new families can join the tenant-based side of the program — means that the District will be nearly 5,200 units behind its goal of 6,900 units in FY 2012, seven years after the Task Force report.
- **Limited tools to make housing affordable for very low-income families.** LRSP is one of the main tools the District has to make housing affordable to very low-income families, or those making less than \$30,000 a year. In addition, it is often used in conjunction with other programs, such as the HPTF, to increase the supply of housing affordable to people with very low-incomes. 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.

## Other Affordable Housing Funding in the FY 2013 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.



## Home First Program

The Home First 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 2013, funding for the Home First program would be \$7.9 million, an increase of \$1.2 million over the FY 2011 budget after adjusting for inflation. This increase will allow for the creation of 100 additional units of affordable housing and is part of a larger requirement of the District to add 300 additional units of supportive housing as part of the District’s exit criteria from a long-standing class action lawsuit commonly referred to as “Dixon.”

## 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.

In FY 2013, the proposed local funds budget for Permanent Supportive Housing is \$19 million, a decrease of \$4 million, or 21 percent, over the FY 2012 budget of \$22 million. The gross funding level—both federal and local—would fall from \$27 million in FY 2012 to \$25 million in FY 2013, a 7 percent reduction, after adjusting for inflation.

The local funding reduction will result in a reduction to case management services. The local funding cut also assumes some local savings by shifting some people in the PSH program from local to federal housing vouchers. In FY 2013, DHS expects to serve the same number of people as in FY 2012; 863 individuals and 265 families. For a more detailed analysis of the permanent supportive housing program, see DCFPI’s toolkit piece on the FY 2013 budget for homeless services at <http://www.dcfpi.org/fy13-budget-toolkit>.