DC Fiscal Policy Institute

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HOUSING PRODUCTION TRUST FUND (HPTF)

Overview

The Housing Production Trust Fund (HPTF) is the District's primary affordable housing tool and supports the construction, rehabilitation, and/or acquisition housing affordable to low- and moderate-income households. The HPTF is funded through a portion of DC's deed recordation and transfer taxes. Since 2001, the HPTF has built or renovated over 6,800 affordable housing units throughout the District.

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

- The HPTF's source of funding is volatile, because the volume of property sales in the city can fluctuate greatly in real estate booms and busts. In bad economic times, taxes dedicated to the HPTF can drop significantly. This makes it difficult for the District to maintain funding for ongoing production of affordable housing.

- Funding from the District's HPTF has been diverted in recent years to other housing programs, leaving the Housing Production Trust Fund with fewer resources to meet its purpose.

Table 1
Affordability Mix in HPTF

Fiscal Year	Funded Units	Affordability Mix (% Area Median Income)			Total Project Units
		30% and under	*31-50%*	*51-80%*	
2001	258	103	0	155	258
2002	38	15	15	8	259
2003	183	51	107	25	1,173
2004	395	167	192	36	1,146
2005	325	180	39	106	325
2006	1,431	716	458	257	1,452
2007	1,120	409	433	278	1,234
2008	1,924	824	753	347	1,924
2009	346	131	159	56	346
2010	353	149	183	21	353
2011	472	182	203	87	472
TOTAL	6,845	2,927	2,542	1,376	8,942

History and Use of the HPTF

The HPTF provides grants and loans to both for- and non-profit developers to support a range of affordable housing development activities. The HPTF can be used for either rental or homeownership housing.

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Table 2

HPTF by Ward

HPTF Units By Ward	
1	1,017
2	486
3	31
4	489
5	943
6	201
7	1,361
8	2,805

Funding from HPTF often is used in conjunction with other sources of private financing to support a project's total development costs. In fact, on average, the HPTF leverages $2.30 in private financing for every dollar in HPTF awards.

By law, it is required to utilize at least 40 percent of the program's expenditures each fiscal year on units for households with income below 30 percent of area median income (AMI) - $32,250 in 2012 for a household of four. The HPTF meets this goal each year, and almost 80 percent of funded units are reserved for households with 50 percent AMI or below. (See Table 1.) Most (over 80 percent) of the units supported by the HPTF are rental units.

The HPTF was established in 1988. However, it did not receive regular funding until FY 2001, when the District made a one-time $25 million contribution. And then in January 2002, the DC Council adopted the Housing Act of 2002 which dedicated 15 percent of the District's real estate recordation and transfer taxes annually to the HPTF. In FY 2007, the HPTF received a boost in resources as the DC council adopted legislation that increased the deed recordation and transfer tax rate, resulting in increased funding for the program.

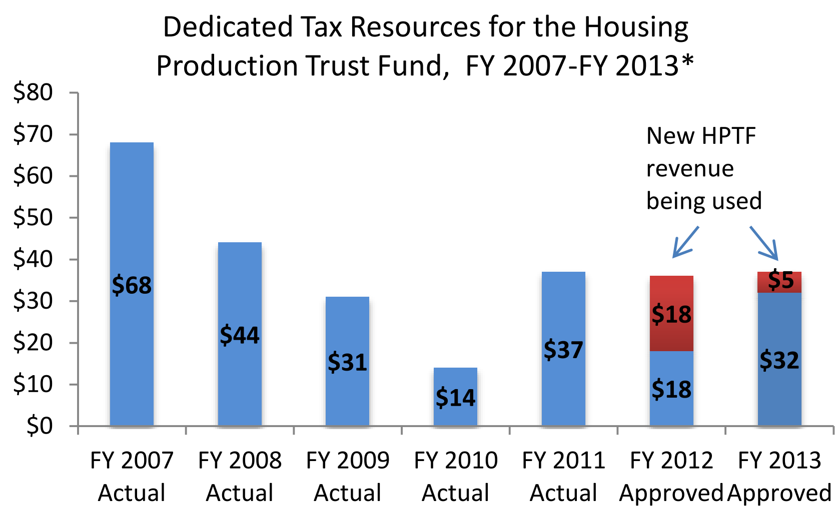
The HPTF has led to the construction of affordable housing units in each of the District's wards. The heaviest concentration of projects though is in Wards 1, 7, and 8. Together, these are home to almost 80 percent of HPTF units. (See Table 2.)

Financial Status

The HPTF is largely funded by 15 percent of deed recordation and deed transfer taxes that are dedicated each fiscal year. These taxes are tied to the sale of both commercial and residential property, which means that funding for the HPTF is heavily tied to the real estate market in DC. Starting in FY 2008, the recession, and the corresponding housing market bust, had a negative impact on funding dedicated to the HPTF. In fact, total resources for the HPTF fell from $68 million in FY 2007 to just $14 million in FY 2010, a nearly 80 percent drop. (See Figure 1.) Starting in FY 2011, DC's real estate market began to pick back up and deed recordation and transfer taxes increased. However, starting in FY 2012, a significant portion of HPTF's funding was redirected to other purposes, which significantly lowered the District's capacity to support affordable housing construction and preservation.

Figure 1

HPTF Resources



*Figures are adjusted for inflation to equal FY 2013 dollars. Figures only include new revenue from deed and recordation taxes and do not include funding securitized for New Communities projects, one-time payments made to the HPTF, carryover funds, re-payments or other funds deposited into the HPTF.

In FY 2013, the Mayor proposed to again divert a significant portion of HPTF resources. The DC Council was able to restore most of the proposed cut to HPTF, but only for one fiscal year, by redirecting the proceeds from the sale of a DC-owned building to the fund. This means that the HPTF's capacity to support affordable housing development and preservation will be significantly reduced going forward.

Table 3 (next page) demonstrates how the current demands on the HPTF could limit the total resources for HPTF core activities in the future. These demands include:

- Funds used to pay for debt service on revenue bonds for the New Communities program. By law, the District is allowed to securitize up to $16 million from the HPTF each year for the New Communities program. New Communities is a program that tears down public housing complexes in four areas of the District and rebuilds a larger number of mixed income housing units, replacing the low-income public housing units that were torn down. In FY 2014, $11 million is expected to be used for the New Communities initiative, with increasing amounts going to the initiative in FY 2015-16.

- Additionally, $20 million in funding will be transferred each year to the DC Housing Authority for the Local Rent Supplement Program, which helps to make housing affordable to very low-income families.

- Lastly, a portion of the HPTF is allocated to administrative costs. These transfers mean that in the out years, on average, less than a quarter of HPTF's resources from dedicated taxes will actually support HTPF activities.

Current Issues

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

- Unstable Funding Sources
- Diversion of Current Funding Resources

Unstable Funding: Because the HPTF's funding is tied to the volume of sales in the District's real estate market, this means that available money for the program is uncertain from year to year. This was a problem especially during the recent recession when real estate activity dwindled. As a result, HPTF funding dropped by nearly 80 percent from FY 2007 to FY 2010. Large unexpected drops in funding can lead the HPTF to become oversubscribed, meaning that the HPTF has more commitments for funding than it has resources. This can delay affordable housing projects that may be otherwise ready to build.

To avoid oversubscription and to have more reliable funding from year to year, the District should

Table 3

Funding for Housing Production Trust Fund

	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)
Plus: Proceeds from sale of DC Building (one-time funds)	15.0	0	0	0
Net for HPTF Activities	*32.3*	*14.6*	*12*	*10.5*
Less: Administrative Costs	(4.5)	(4.5)	(4.5)	(4.5)
Available for core HPTF purposes	**$27.8**	**$10.1**	**$7.5**	**$6.0**

* 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.

set up a stable funding source for the HPTF.[1] This could include funding the HPTF with a set *amount* of deed transfer and deed recordation taxes rather than relying on a *percentage* of these taxes. Another option would be to tie the HPTF to a more stable tax source such as commercial property taxes. The HPTF could also be funded through a set appropriation from the District's general fund each year, as most DC agencies are funded. Lastly, the HPTF could continue to be funded with a percent of deed recordation and transfer taxes, but have a minimum funding amount that would be automatically transferred each year. A bill introduced by Councilmember Barry in 2008 proposed using this method. The bill passed, but was never funded and thus never implemented.

Diversion of Resources: For the last two fiscal years, the Mayor has proposed taking $18 million to $20 million of resources from the HPTF and using it for another affordable housing program. While the DC Council was able to restore $15 million of the proposed $20 million cut in FY 2013, it was not able to identify a permanent solution. This means that the HPTF still faces significant cuts starting in fiscal year 2014. The proposed diversion of HPTF resources would cut resources into the HPTF by close to 60 percent starting in 2014.[2] Combined with the additional demands on the HPTF mentioned in the previous section, total resources available for core HPTF purposes — affordable housing construction and preservation — would be reduced to less than a quarter of resources that are supposed to flow to the HPTF.

[1] To read more, see: "Affordable Housing in the District Depends on a Stable Housing Production Trust Fund" http://dcfpi.org/wp-content/uploads/2008/10/10-20-08stablehptfreport.pdf

[2] Figure includes HPTF resources after the debt service on revenue bonds is subtracted.