

*Updated May 18, 2009*

## What's in the FY 2010 Budget for Affordable Housing?

**Summary of the Mayor's Proposed Housing Budget:** The proposed local funds budget for affordable housing for FY 2010 totals \$79 million from a variety of sources. This represents a 12 percent drop in local funds for affordable housing from FY 2009, after adjusting for inflation, and a drop of 38 percent from a peak in FY 2008. Proposed funding for FY 2010 would fall back to about the same level as in 2006, the year a mayoral housing task force recommended a substantial increase in support for housing. The decline in funding is primarily due to continued plummeting in funds for the Housing Production Trust Fund, due to falling collections in DC's deed taxes that are the source of the Trust Fund's funding. The funding decline is also a result of a reduced local contribution to the DC Housing Authority, which is expected to be offset by use of carryover funds from previous years.

Both the Department of Housing and Community Development (DHCD) and the DC Housing Authority (DCHA) will receive federal stimulus funds in FY 2010 for a variety of programs. Even so, gross funds (both local and federal funds) for affordable housing will be lower in FY 2010 than in FY 2009 — after the mid year budget cuts were made — and both local and gross support for affordable housing in the District will be at the lowest level since FY 2007.<sup>1</sup>

With a majority of the new federal funds as stimulus dollars — and a majority of that funding not available in FY 2011 — it is unclear how much funding affordable housing in the District will have in FY 2011 and beyond. Particularly with the decline in the funding for the HP'TF, one of the primary sources for affordable housing construction and renovation, affordable housing will need a boost in local dollars in the coming years in order to ensure the District can meet the affordable housing needs of its low- and moderate-income residents and doesn't further fall even further behind and in creating affordable housing.

**Summary of Council Committee Mark-Ups:** The

### SUMMARY

#### MAYOR'S PROPOSED BUDGET

- The proposed FY 2010 budget shows a significant drop in local funding for affordable housing; largely from a continued decline in the Housing Production Trust Fund from falling deed tax collections. Total FY 2010 local and gross resources — which include federal funding — for affordable housing are at their lowest since FY 2007.
- At the same time federal stimulus money will help address some of the worsening affordable housing needs temporarily. However, beyond FY 2010, DC is likely to see a large drop in affordable housing funding unless DC can provide a local boost in funding going forward.

#### COUNCIL MARK-UP, APRIL 30

- The Council approved a \$2 million increase for the Local Rent Supplement Program, a \$750,000 increase for the Home Purchase Assistance Program and a \$750,000 increase for the Housing First program following a transfer of the dollars from the Committee on Public Works and Transportation. The Council also restored the Rental Housing Commission that was proposed to be eliminated in the Mayor's budget.

#### FINAL COUNCIL VOTE, MAY 12

- The Council voted to allow the DC Housing Authority to use certain funds from the Local Rent Supplement Program to support the construction costs of projects that get LRSP rent subsidies. In addition, the Council capped the percentage of the Housing Production Trust Fund that could be used for administrative costs at 10 percent.

<sup>1</sup> Gross funding includes federal funds for the Department of Housing and Community Development.

Committee on Housing and Workforce Development approved a \$2 million increase in the Local Rent Supplement Program and a \$750,000 increase in the Home Purchase Assistance Program. In addition, the Housing First program — which is under the Committee on Human Services — received a \$750,000 increase. The funding for these increases was identified in the Committee on Public Works and Transportation and transferred to the Committee on Housing and Workforce Development and the Committee on Human Services. The Committee on Housing and Workforce Development also fully restored a proposal in the Mayor’s budget to eliminate the Rental Housing Commission within DHCD. The Committee also directed the Department of Housing and Community Development to devote 50 percent of the revenues collected from the sale of scattered site properties it owns to the Housing Production Trust Fund. The total amount this would raise is unclear.

**Summary of Final Council Vote:** The Council voted to allow the DC Housing Authority to create a new category of use for funds in the Local Rent Supplement Program. While LRSP currently provides monthly rent subsidies, the new provision allows DCHA to use any LRSP funding that has gone unspent and that is unobligated at the end of any fiscal year to cover construction costs for projects that have been awarded LRSP subsidies. This would support the completion of several affordable housing developments that cannot now move forward because of financing difficulties. In addition, the Council voted to increase the total allocation of the HPTF for administrative costs from 5 percent to 10 percent; however this is a reduction from the original proposal in the Mayor’s budget, which would have allowed 20 percent of HPTF funds to be used for administrative costs. Lastly, the Council voted to add \$1.7 million to DHCD’s budget for small business technical assistance grants, otherwise referred to as Neighborhood Based Activities funds.

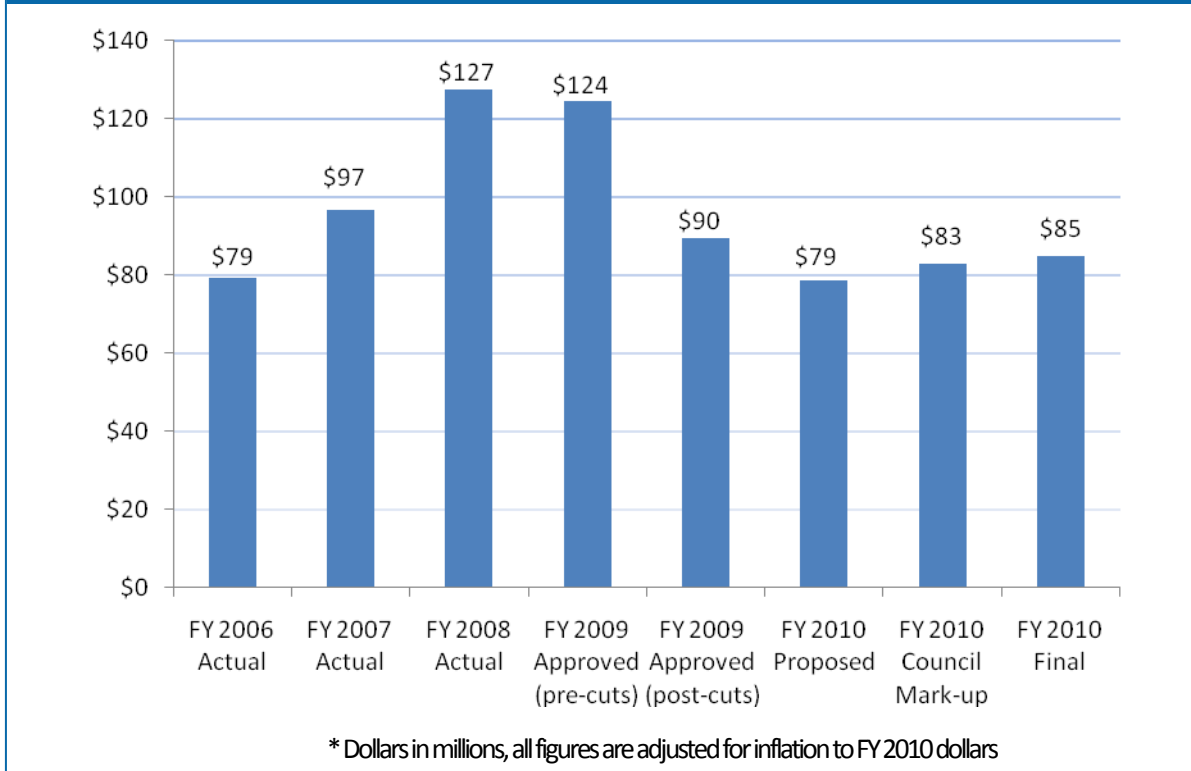
## **Analysis of the Housing Budget**

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 three 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), and two smaller sources of funding for affordable housing found in the Department of Human Services (DHS) and the Department of Mental Health (DMH).

Figure 1 shows the change in total funding for affordable housing from these sources for FY 2006 – FY 2010. It shows that funding for affordable housing increased from FY 2006 through FY 2008 and has been declining since. The large increase in FY 2008 is mainly attributed to a \$30 million allocation to the HPTF from the DC Council when they passed the FY 2008 supplemental budget. In FY 2009, nearly \$29 million was cut from affordable housing because of a mid-year budget shortfall.

**FIGURE 1: LOCAL FUNDING FOR AFFORDABLE HOUSING, FY 2006-FY 2010\***



### The Department of Housing and Community Development

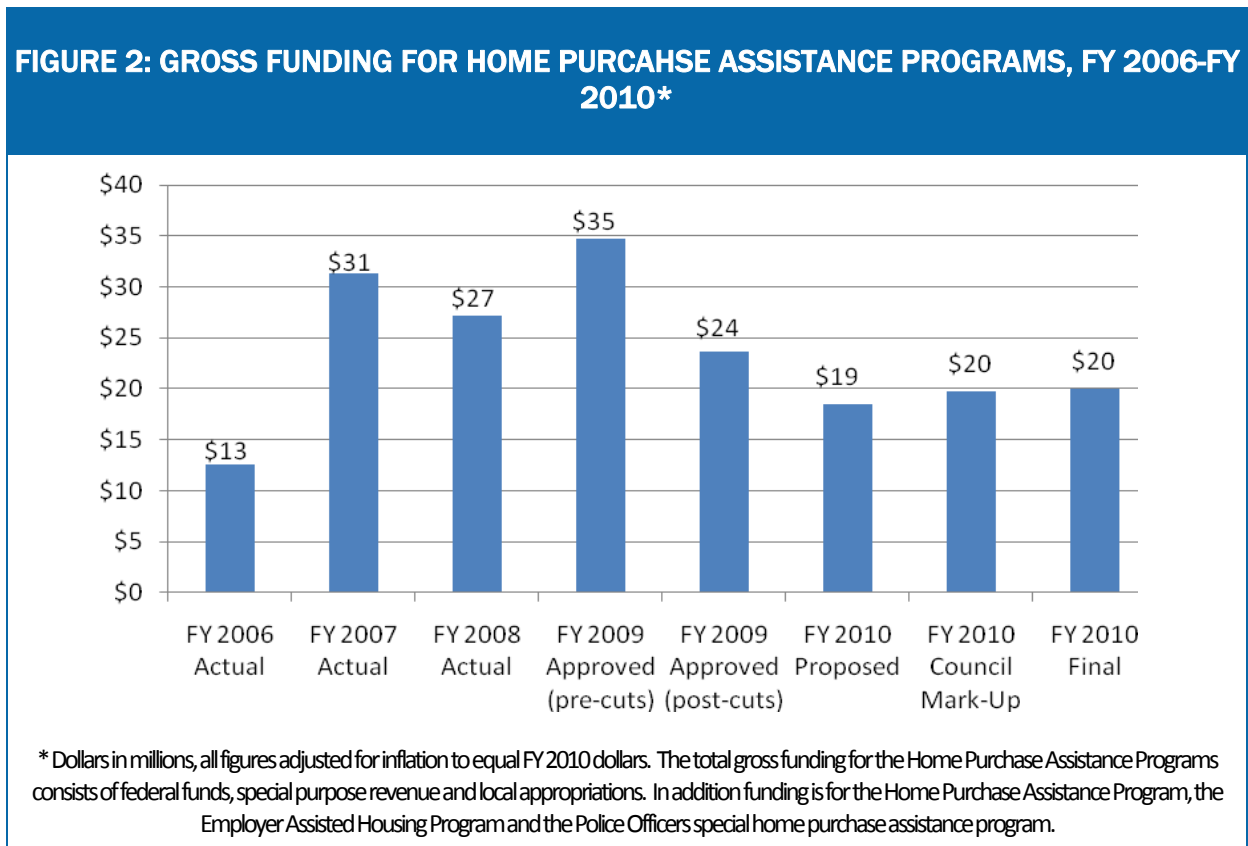
**Mayor's Proposed Budget:** DHCD focuses on the financing, production, and preservation of affordable housing and homeownership in the District. The proposed DHCD local budget for FY 2010 is \$17.9 million. This is a significant decline from the originally approved FY 2009 budget of \$38 million and about the same as the revised FY 2009 budget of \$16 million. The FY 2009 budget for the Department of Housing and Community Development was cut by \$21 million in the fall of 2008 in response to a mid-year revenue shortfall. (The cuts included an \$11 million reduction in the Home Purchase Assistance Program and \$10 million from a Land Acquisition and Housing Development fund.)

A substantial share of local funding within DHCD is devoted to home buying assistance programs, the largest of which is the Home Purchase Assistance Program (HPAP), which provides down-payment and closing cost assistance to help low-income first-time homebuyers.<sup>2</sup> In FY 2010, the home buying assistance programs will receive a total of \$19 million, including federal funds, of which HPAP is expected to receive \$17 million (see figure 2). This is lower than the original FY 2009 budget of \$35 million and the \$24 million remaining for home purchase assistance in FY 2009 after the mid-year cut of \$11 million. In fact, total funding for home purchase assistance programs

<sup>2</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 FY 2010 will be at its lowest since FY 2006. This decline will occur even though the District will use \$6.5 million in federal stimulus funds for HPAP in FY 2010.

This represents a significant reduction in support for HPAP, which had received substantial funding increases in prior years. After FY 2006, funding for HPAP was expanded substantially. This expansion 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 — which was needed to help homebuyers address rising home prices.



As a result of the reduction in funding, in FY 2009 the maximum HPAP loan amount has been reduced from \$70,000 to \$40,000. Since home prices in the District have not fallen as dramatically as in other surrounding areas—or in proportion to the reduction in assistance—the lowered assistance amount means that many low-income homebuyers will have a much harder time affording, or being qualified to purchase, homes in the District.

A second major function of DHCD is the financing of affordable housing projects, using a mixture of local and federal funds. The Affordable Housing program will receive \$6.4 million in local funds in FY 2010, compared with \$1.5 million in local funds in FY 2009. Total gross funding for this program is proposed to be \$43 million in FY 2010. This includes nearly \$10 million in stimulus funds, the large majority of which—\$8.8 million—will be used to address the fact that cities and states have not been able to use another financing mechanism — low-income housing tax

credits (LIHTC) — due a weakened market for these credits.<sup>3</sup> This funding will help DHCD provide funding for existing e projects that were awarded credits from 2007-2009, but have been stalled in the economic downturn.

Using stimulus funds for affordable housing financing and development is important. Yet, it should be noted that most of the stimulus funding is intended to help move projects that have been stuck in the pipeline due to the weakened market for tax credits. Moreover, the majority of stimulus money will not be available in FY 2011 and beyond. Without the stimulus funds, the total amount budgeted for DHCD's affordable housing development in FY 2010 — \$34.2 million — is about the same as the amount spent in FY 2007, after adjusting for inflation.<sup>4</sup> Combined with the dramatic drop in resources for the Housing Production Trust Fund and the weakened market, much of the funding coming to DHCD for affordable housing financing will be used for projects that have been in the pipeline. This means that in FY 2010, there is very little new funding available for the financing of affordable housing projects including new tenant purchases.

The Budget Support Act proposes to eliminate the Rental Housing Commission (RHC) and move the review of hearings to the DC Superior Court. In addition, the budget proposes to give, the authority to review rental housing regulations to the Mayor; currently, those regulations are reviewed by the RHC. One of the reasons given for the elimination of the RHC is its inefficiency, yet it is not clear how the transition of the duties of the RHC will be implemented and how the capacity to review and hear complaints will be improved by its elimination.

**Council Mark-Up:** The Committee on Housing and Workforce Development approved an increase in the overall local appropriation for DHCD of \$1.05 million. The Committee accepted a \$546,000 transfer from the Committee of the Whole to fully restore the Rental Housing Commission and its 5 FTE's as well as transfer to the RHC of an additional one-time appropriation of \$500,000 from within DHCD's unified fund — a fund that collects payments from a variety of affordable housing programs — to support enhancements for the program. In addition, the Committee accepted the transfer of \$750,000 for the Home Purchase Assistance Program from the Committee on Public Works and Transportation. Lastly, the committee also transferred \$250,000 to the Committee on Human Services for a grant to Access Housing, Inc. to support housing for District veterans.

The Committee also required DHCD to submit to the Council a plan for use or sale of all scattered site properties that DHCD currently owns, by October, 1 2009. The Committee directed 50 percent of the revenues from any auction of these properties to the Housing Production Trust Fund. It is unclear at this time how much revenue that would raise for the Trust Fund.

**Final Council Vote:** The Council voted to add \$1.7 million to DHCD's budget for grants to various city groups to provide small business technical assistance in the District. These entities had been receiving funds for this purpose from DHCD's federal Community Development Block Grant, but funding was stopped halfway through FY 2009 and not continued in FY 2010. The Council made no other changes to the Committee's actions.

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<sup>3</sup> Only projects that were already awarded credits in FY 2007, FY 2008 or FY 2009 are eligible.

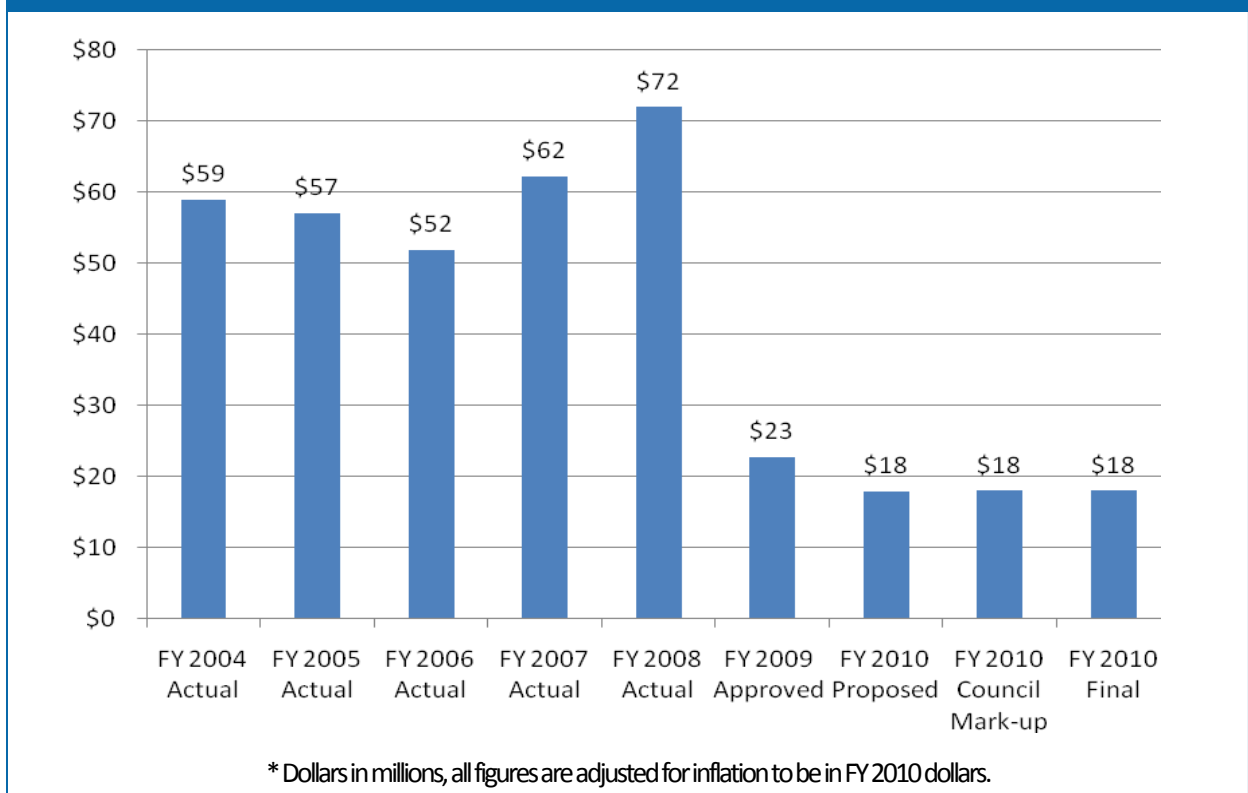
<sup>4</sup> The \$34.2 million removes the \$8.8 million for the tax credit program.

## 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. DC's real estate market cooled substantially starting in 2008, however, and this resulted in a sharp decline in support for HPTF.

**Mayor's Proposed Budget:** As a result of the slowdown, it is now expected that support for the HPTF in FY 2010 will be just \$18 million (see figure 3). This is far less than the \$62 million in deed taxes dedicated to the Trust Fund in FY 2007 and \$42 million dedicated in 2008. (Total HPTF funding in 2008 was \$72 million because the Council provided a \$30 million supplemental appropriation to address the decline in deed taxes.) In fact, the FY 2010 funding level would be the lowest since 2003.

**FIGURE 3: FUNDING FOR THE HOUSING PRODUCTION TRUST FUND, FY 2004-FY2010\***



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 have increased sharply since FY 2005.<sup>5</sup>

<sup>5</sup> 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>

For example, expenditures from the Trust Fund totaled \$70 million in FY 2007, and the Trust fund has supported the production of 4,000 thousand affordable units since FY 2002.

The decline in funding for the Housing Production Trust Fund also means that current demands far outweigh available resources, and this means that many viable affordable housing projects will not get funded. According to a paper by DCFPI and the Coalition for Nonprofit Housing and Economic Development (CNHED), as of June 2008 the HPTF had a balance of \$98 million.<sup>6</sup> The paper noted that of that \$98 million, \$64 million was obligated to affordable housing projects and that nearly \$157 million of additional funding would be needed to finance the projects that were ready to go in the pipeline. Because of these demands, affordable housing project needs outweighed available HPTF resources by at least \$123 million in June 2008.

Without additional support, the District may not even be able to 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.<sup>7</sup> The last comprehensive RFP was issued in November of 2007.

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. For this reason, the DC Council adopted legislation in the fall of 2008 expressing the goal of setting a \$70 million funding floor for the Trust Fund in FY 2010 and an \$80 million funding floor in future years. The FY 2010 budget does not provide a new funding mechanism or meet the funding goal set by the Council.

Another challenge facing the Housing Production Trust Fund is that the District had expected to rely on it as a major funding source for the New Communities Initiative. The District has authorized securitization of up to \$16 million from the HPTF to back bonds that would support New Communities projects. The current expectation is that only \$6 million will be securitized as of FY 2010, yet even this represents nearly one third of the Trust Fund's new resources and leaves just \$12 million in FY 2010 for core HPTF purposes. 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.

A final challenge that constraints the ability of the HPTF to finance new affordable housing developments is that for FY 2010 the allocation of HPTF resources for administrative costs will be increased from five percent of the available resources to 20 percent of available resources. The increased allotment for administrative costs is likely a result of the fact that five percent of available resources are no longer sufficient to support administrative costs because the funding has fallen so dramatically. Even so, this further reduces the amount of funding available to support affordable housing projects.

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<sup>6</sup> Ibid

<sup>7</sup> Ibid

**Council Mark-Up:** As mentioned previously, the Committee required DHCD to submit to the Council a plan for use or sale of all scattered site properties that DHCD currently owns, by October 1, 2009. The Committee redirected 50 percent of the revenues from any auction of these properties to the Housing Production Trust Fund. It is unclear at this time how much revenue that would raise for the Trust Fund.

**Final Council Vote:** The Council voted to increase the share of the Housing Production Trust Fund that can be used for administrative expenses from 5 percent to 10 percent. This is a decrease, however, from the Mayor's proposal to allow up to 20 percent of Trust Fund resources for administrative purposes. The Council made no other changes to the Committee's actions.

### **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 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 proposed DC Housing Authority subsidy for FY 2010 is \$25 million, \$6 million less than the budget of \$31 million in FY 2009. The FY 2010 funding level is \$8 million lower than the originally approved budget of \$33 million for FY 2009. Some \$2 million was cut from the FY 2009 budget in the fall of 2008 in response to a mid-year budget shortfall.

DCHA is expected to be able to continue funding all commitments in FY 2010, including some projects that have been awarded contracts but have yet to move forward because of financing difficulties, in FY 2010 by using unspent funds carried over from prior years. The funding is expected to continue to support the 678 families that have LRSP vouchers and the 948 units—that are either occupied or have funding commitments—that are subsidized with LRSP vouchers. The carryover funding has gone unspent because it has been obligated to some projects that have had delays in moving forward due to financing difficulties. 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 2010.

The proposed FY 2010 funding level is the same as the FY 2008 funding level, which means that it would be the second year in a row that DCHA has not received an increase in funding or even an adjustment for inflation. Because housing costs rise each year, flat funding makes it difficult to maintain adequate assistance. Without additional funding, the number of families served by these funds may actually decline in future years.

The flat funding for the DC Housing Authority has several implications.

**No 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. Without additional funding for LRSP, the FY 2010 budget will not make a 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 1,650 households under the Local Rent Supplement Program. Flat funding for DCHA in FY 2010 — and no new subsidies — means that the District will be nearly 2,250 units behind its goal of 3,900 units in FY 2010, four 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.

**Council Mark-Up:** The Committee approved an increase of \$2 million over the Mayor's proposed budget for the DC Housing Authority to a total of \$27 million. The \$2 million increase comes from a transfer of \$2 million from the Committee on Public Works and Transportation for the Local Rent Supplement Program.

**Final Council Vote:** The Council voted to allow the DC Housing Authority to use a portion of Local Rent Supplement funds for construction costs for affordable housing developments, rather than for rent subsidies. Under the new provision, DCHA can use LRSP funds that remain unspent and unobligated at the end of any fiscal year to pay for construction costs of developments that will receive LRSP subsidies when completed. There are currently seven projects slated to receive LRSP subsidies when completed that have yet to move forward with construction because of financing difficulties. Allowing these funds to be used for production would help move some of these projects out of the pipeline. It is unclear at this point how many projects would be able to move forward or how much DCHA would have available to use at the end of FY 2009.

## **Other Affordable Housing Funding in the FY 2010 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.

**Mayor's Proposed Budget:** 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 2010, the Bridge Subsidy Program will receive \$5.5 million, no change from the FY 2009 funding level. This level is not adequate to meet the full need. In FY 2009, the program ran out of funds five months into the fiscal year. Without an adjustment even for inflation in FY 2010, the program could run out of funds earlier in FY 2010.

**Mayor's Proposed Budget:** The Permanent Supportive Housing Program, know 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. Some \$7 million of the FY 2009 allocation was eliminated —nearly all of the capital funding—in response to a mid-year revenue shortfall. The near elimination of capital funding means that the program is limited in the amount of site acquisition that it can do and its ability to rehabilitate units to make them accessible to persons with disabilities.

For FY 2010, the proposed budget would provide \$12 million for the program for operating costs and case management services, a continuation of the funding level it received in FY 2009 after the budget cuts. This means that the program should be able to continue to house the 655 individuals and 80 families that are expected to be placed by the end of FY 2009, but that it will not be able to house any new individuals or families in FY 2010.

**Council Mark-Up:** The Committee on Health — which has oversight of the Bridge Subsidy Program — made no changes to the Mayor’s proposed budget for this program. The Committee on Human Services— which has oversight of Housing First — approved a \$750,000 increase to the Housing First Program. Funding for this program increase was transferred by the Committee on Public Works and Transportation to the Committee on Human Services.

**Final Council Vote:** The Council made no changes to the Committees’ actions during the final vote.

### **Stimulus Funding for Affordable Housing in the FY 2010 Budget**

The FY 2010 budget contains approximately \$28 million in federal stimulus funds for affordable housing and related programs. More than half of that will go to the DC Housing Authority, and the remainder will go to the Department of Housing and Community Development. In addition, the FY 2010 budget proposes using \$6.5 million in flexible stimulus funds for HPAP.

- DCHA is expected to receive \$9 million in FY 2010 to make capital improvements to existing public housing units;
- DHCD will receive \$8.8 million for affordable housing construction projects to offset the weakened low-income housing tax credit (LIHTC) program. It also will receive \$2.5 million for emergency housing assistance to prevent homelessness and \$872,000 for lead abatement activities;
- The Mayor’s proposed budget also directs \$6.5 million of the stimulus’ state fiscal stabilization fund — a flexible fund that states can direct to any program — to the HPAP program.

## **Other Issues to Track in the FY 2010 Budget for Affordable Housing**

**Affordable Housing funding for FY 2011 and beyond needs a boost:** Both local and gross funding for affordable housing is down in FY 2010 from FY 2009. In fact, total funding for affordable housing is at the lowest it has been since FY 2006. Funding for affordable housing did begin to rise in FY 2007 and up through FY 2009—before budget cuts were made—however it has fallen sharply since. This means this District is no longer making progress towards the recommended annual \$200 million increase in local funds that the Comprehensive Housing Strategy Task Force recommended in 2006.

In addition, most of the core programs for affordable housing have seen flat funding or a decline in FY 2010. And some critical affordable housing programs—such as HPAP and LRSP—are being funded with stimulus dollars and reserves, which are not sustainable. It is good to use funds this way in a tight budget year, but it does raise concerns for how these programs will be funded in FY 2011 and beyond—especially if the economy continues to lag.

With the continued rapid decline of the Housing Production Trust Fund, the lack of an increase in DCHA funding, and decreases to some of the major affordable housing programs — like HPAP — affordable housing funding is likely to be much lower in 2011 and beyond unless a local boost to funding is found.

## **Budget Schedule**

The Council will hold its second, and final, vote on the FY 2010 Budget Support Act on June 2<sup>nd</sup>.