

*Updated July 19, 2011*

## **What's in the FY 2012 Budget for Affordable Housing?**

The FY 2012 general fund budget for affordable housing is \$87 million from a variety of sources. This represents a net \$20 million decrease, or 19 percent, from the FY 2011 budget, after adjusting for inflation. The decrease in funds is largely from reductions to the Housing Production Trust Fund—DC's main source for affordable housing construction and renovation. Other housing programs are largely flat-funded.

The FY 2012 budget also makes several significant changes to DC's affordable housing programs that weaken the District's capacity to respond to the affordable housing needs of DC's low-income residents. However, some of these new provisions will be reversed if the District has a large increase in future revenues.

**Large Cut to Funding for the Housing Production Trust Fund:** The Trust Fund, which supports construction and rehabilitation of affordable housing, is supported by 15 percent of DC's deed recordation and transfer taxes, which dropped sharply in the downturn. Starting in FY 2011, resources for the HPTF began to grow as a result of several large commercial property sales and an increase in single-family home sales. In FY 2012 total resources for the HPTF under the funding formula would be \$35 million. However, the FY 2012 budget wipes out more than half of these resources, or \$18 million.

**Cuts to the Local Rent Supplement Program:** The approved FY 2012 budget uses subsidies from the Local Rent Supplement Program and federal vouchers to cover part of the existing expenses in another program, the Permanent Supportive Housing Program for chronically homeless residents. These changes will reduce the number of families who will get housing assistance by 425 and thus will lengthen the wait for the 28,000 households on DC's housing waiting list.

### **SUMMARY**

#### **MAYOR'S PROPOSED BUDGET**

- The proposed FY 2012 local budget for affordable housing was \$87 million, a decline of 19 percent over the FY 2011 budget, after adjusting for inflation.
- Through cuts and policy changes, the Mayor's FY 2012 budget proposed to significantly weaken the capacity of DC to provide additional affordable housing. Two of the most significant changes proposed were an \$18 million cut from DC's Housing Production Trust Fund—the main source for affordable housing construction and renovation—and cuts to the Local Rent Supplement Program (LRSP) that would use 175 LRSP units not yet occupied for another affordable housing programs' clients.

#### **FULL BUDGET VOTE, JUNE 14**

- The Council approved the Mayor's proposal but voted to direct \$18 million of future revenue increases to the Housing Production Trust Fund, which would restore the entire proposed cut.
- The Council voted to maintain the tenant voucher component of the Local Rent Supplement Program (LRSP).
- The Council voted to direct \$1.6 million of future revenue increases for LRSP in order to undo the Mayor's proposal to use 175 LRSP vouchers for the permanent supportive housing program.

Some of these changes could be reversed under a provision passed by the DC Council, which directs any future increase in city-wide revenue forecasts to restore funding to a number of programs. The package prioritized restorations for a variety of priorities, including \$1.6 million for Local Rent Supplement Program and \$18 million for the Housing Production Trust Fund. However, these restorations will only if revenues increase by a substantial amount later this year.

## **Analysis of the FY 2012 Housing Budget**

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.

These tools include:

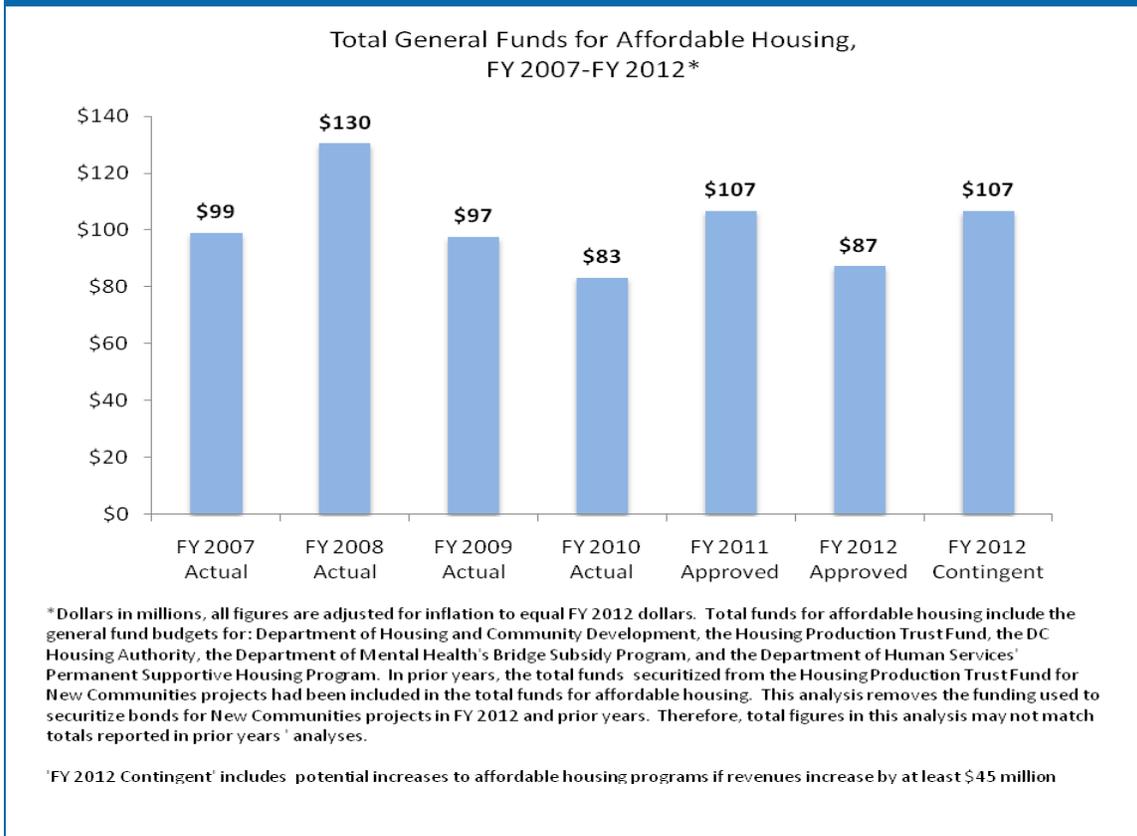
- **The Housing Production Trust Fund** which finances affordable housing construction and renovation, and also provides financial support to tenants who want to purchase their building when it goes up for sale.
- **The Local Rent Supplement Program** which provides a rental subsidy to help very low-income residents, those making less than \$30,000 a year, live in affordable homes.
- **The Permanent Supportive Housing Program** which provides housing and case management support 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 funding is tied to 15 percent of deed tax collections, which fell sharply in recent years.

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 2007 – FY 2012. It shows that funding for affordable housing increased from FY 2007 through FY 2008 (the large increase in FY 2008 is mainly attributed to a \$30 million allocation to the HPTF approved in a supplemental budget), but then fell sharply in FY 2009 and further in FY 2010. FY 2011 represents the first year funding for affordable housing would increase, largely driven by increases in deed taxes that fund the Housing Production Trust Fund, as well as a \$10 million contribution from the developers of the old Convention Center site, to meet that project’s affordable housing requirement.

**FIGURE 1: FUNDING FOR AFFORDABLE HOUSING REMAINS BELOW PRE-RECESSION LEVELS**



Total funding for FY 2012 is \$87 million, a 19 percent decrease over FY 2011 (also, see table 1). This comparison is affected by two factors. First is the loss of the one-time payment to the HPTF in 2011. Second, the FY 2012 budget includes an \$8 million increase in local funding for permanent supportive housing to help offset a reduction of federal funding for this program. When these are factored out, total funding for affordable housing in FY 2012 is \$18 million lower than in FY 2011.

The decrease in funds is attributed to an \$18 million cut to the HPTF. As described in more detail below, the FY 2012 budget also weakens the Local Rent Supplement Program, although some of these changes will be reversed if the city's tax collections increase during the year.

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 2012. Table 1 looks at the change in funding for each of the major affordable housing sources from FY 2007-FY 2012.

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**TABLE 1  
CHANGES IN FUNDING FOR DC'S MAIN AFFORDABLE HOUSING SOURCES, FY 2007-2012\***

	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved	FY 2012 Contingent*
Department of Housing and Community Development	\$6	\$20	\$17	\$27	\$19	\$20	\$20
Housing Production Trust Fund	\$64	\$74	\$30	\$13	\$44**	\$17**	\$35
DC Housing Authority	\$25	\$32	\$32	\$26	\$23	\$22	\$22
Permanent Supportive Housing	n/a	n/a	\$13	\$10	\$14	\$22	\$24
Department of Mental Health Bridge Subsidy	\$4	\$4	\$6	\$7	\$6	\$6	\$6
<b>Total</b>	<b>\$99</b>	<b>\$130</b>	<b>\$97</b>	<b>\$83</b>	<b>\$107</b>	<b>\$87</b>	<b>\$107</b>

Dollars are in millions, adjusted for inflation to equal FY 2012 dollars. 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.

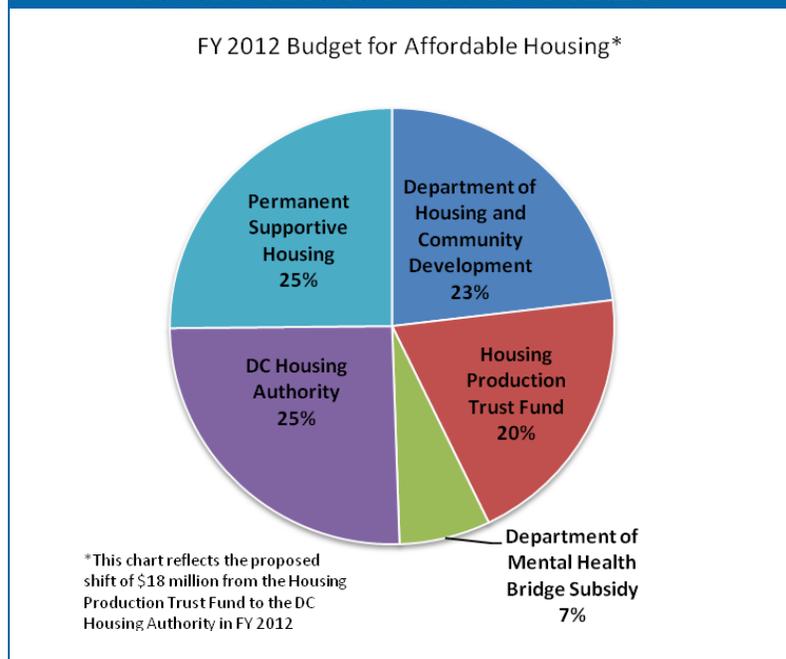
\* 'FY 2012 Contingent' includes funding restorations to affordable housing programs that would be made in DC's revenues increased by a large enough amount.

\*\*These figures reflect HPTF funding levels based on the city's June 2011 revenue forecast. The FY 2011 level includes a special one-time payment of \$10 million from the developers of the old Convention Center site.

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**FIGURE 2: THE FY 2012 BUDGET REQUEST LARGELY DIVIDES THE \$87 MILLION IN FUNDS FOR AFFORDABLE HOUSING AMONG FOUR MAJOR AREAS**



## 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 Act (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.

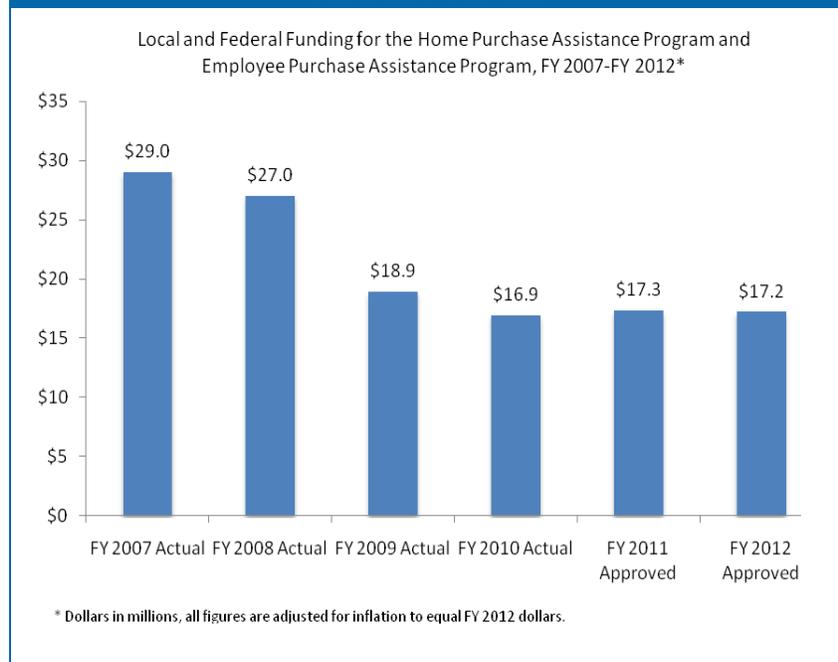
Total local funding for DHCD in FY 2012 is \$20 million, up 5 percent from \$19 million in FY 2011, after adjusting for inflation. The increase largely results from increased administrative costs. As explained in further detail below, funding for the major programs DHCD manages is either flat or significantly reduced from FY 2011.

### 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 2012 — federal and local funds combined — will be \$17.2 million, essentially flat over the FY 2011 budget of \$17.3 million (see figure 3).

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

**FIGURE 3: FUNDING FOR HOME PURCHASE ASSISTANCE IS FLAT IN FY 2012**



<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).

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. In FY 2009, that number fell to 320, and the target for FY 2010 was 300 first-time homebuyers. In FY 2011 and FY 2012 DHCD projects to serve more first-time homebuyers, 400 and 500 respectively, yet without an increase in funding it is not clear how this will occur.

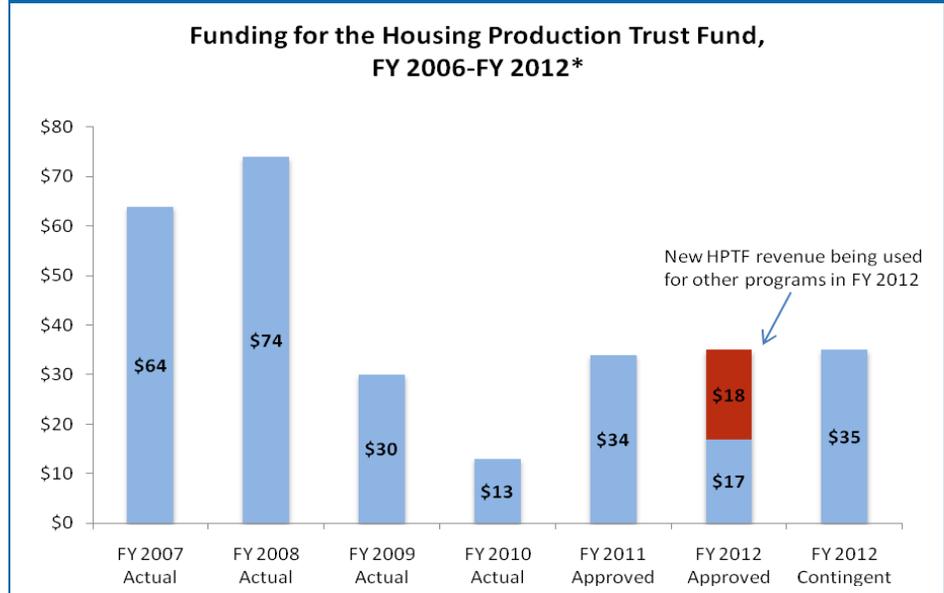
### Affordable Housing Project Financing

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 Act (TOPA) programs. The FY 2012 budget cuts \$18 million from the HPTF and keeps in place a limited budget for TOPA that would just cover administrative support for the program. The Council voted conditionally to restore the full \$18 million cut to the HPTF. This will occur if the city’s revenue collections increase beyond current projections. This is explained in more detail below.

### 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

**FIGURE 4: MORE THAN HALF OF FUNDS DESIGNATED FOR THE HOUSING PRODUCTION TRUST FUND WILL BE TAKEN IN FY 2012 FOR OTHER PROGRAMS**



\*All figures are in millions and adjusted for inflation to equal FY 2012 dollars. Figures do not include funding used to securitize bonds for New Communities projects. FY 2011 figures do not include a one-time \$10 million payment to the Trust Fund from the developers of the old

increase in single-family home sales, total resources for the HPTF jumped (see figure 4). In addition, in FY 2011 the HPTF received a one-time \$10 million payment from the developer of the old Convention Center site, which made this payment in lieu of building affordable housing on-site at the new development.

In FY 2012, total resources into the HPTF under the basic funding formula would be \$35 million, or roughly equivalent to total resources into the fund in FY 2011 (not including the \$10 million one-time payment). But the FY 2012 budget cuts \$18 million from the Trust Fund, based on a provision submitted by Mayor Gray in his budget proposal. As discussed below, the Council voted conditionally to restore these funds, if the city’s revenues grow during the year.

Moreover, due to a variety of factors, as little as \$12 million will be available for its core purposes in FY 2012 and this amount will actually fall further through 2015. This means that the capacity of the city to support affordable housing construction, preservation, or to support tenant purchase efforts will be significantly restricted for several years. (See table 2.)

<b>TABLE 2 THE HOUSING PRODUCTION TRUST FUND’S CAPACITY WILL BE SIGNIFICANTLY REDUCED OVER THE NEXT FOUR YEARS*</b>				
	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
New Resources from dedicated taxes	41.8	44.1	46.3	48.5
Less: Debt Service on Revenue Bonds	(6.7)	(9.7)	(12.7)	(14.5)
Total Subsidy	35.1	34.4	33.6	34.0
Less: Transfer of Funds to DCHA	(18.0)	(18.0)	(18.0)	(18.0)
Net for HPTF Activities	17.1	16.4	15.6	16.0
Less: Administrative Costs	(5.4)	(5.4)	(5.4)	(5.4)
Available for core HPTF purposes	<b>\$11.7</b>	<b>\$11.0</b>	<b>\$10.2</b>	<b>\$10.6</b>

\* Dollars in millions. Source: All figures except debt service on revenue bonds are from the FY 2012 Budget and Financial Plan. Administrative costs are estimated based on available FY 2012 figures. The source of the figures for the debt service on revenue bonds are estimates from the Office of the Chief Financial Officer’s

- The District has the authority to use a portion of the Trust Fund 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 \$42 million in resources into the HPTF in FY 2012, \$6.7 million is expected to be “securitized” used to secure bonds for the District’s New Communities initiative. This leaves the HPTF with \$35 million.
- The FY 2012 budget removes the full \$18 million in new revenue and transfers it to the DC Housing Authority to fund DCHA’s Local Rent Supplement Program. After that, the HPTF will be left with just \$17 million in total resources.
- The FY 2012 budget expects to take another \$5 million for administrative purposes leaving just \$12 million— out of \$42 million— for core HPTF purposes.

The Council voted conditionally to fully restore the \$18 million cut. This funding restoration was passed as part of a package approved by the DC Council that would prioritize future revenue

increases to restore cuts to a number of programs and services that impact low-income residents. In order for the HPTF to receive the full \$18 million in funding restorations, DC revenue forecasts over the next two quarters would need to increase by nearly \$45 million. The next revenue forecast is slated to come out in September.

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. The FY 2012 budget would likely allow DHCD to fund all projects that are left in the pipeline, even if the \$18 million is not restored, but because of the proposed demands on the HPTF in FY 2012 and future years, the District's capacity to finance the development of affordable housing would be greatly restricted in FY 2012 through FY 2015.

Additionally, because funding for the HPTF has been so volatile, tying new programs that require ongoing subsidies each year to the HPTF — particularly \$18 million for the rent supplement program and \$7 million for New Communities — 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 FY 2012 budget for the Tenant Opportunity to Purchase (TOPA) program is just \$83,000 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 2012 budget will not be able to support tenant purchase efforts at a meaningful level, if at all.

### **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 DC Housing Authority subsidy for FY 2012 is \$4 million, 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 the Housing Production Trust Fund (HPTF)— which is intended to fund affordable housing construction, renovation, and tenant purchase— and instead will use it to cover the ongoing rental subsidy needs of the LRSP program in FY 2012 and in future years. When this is factored in, the DCHA subsidy level in 2012 will remain at the 2011 level.

In addition, the FY 2012 budget would also make changes to the LRSP program and use the programs vouchers to fulfill other housing programs purposes. This change will reduce the capacity of the LRSP program to continue to serve DC's low-income families.

The LRSP program is intended to serve a range of DC residents that make below 30 percent of area median income, or less than \$30,000 a year. This mean that the LRSP program would serve a person making DC's living wage— \$12 an hour, or a couple with two kids earning the minimum wage. The 2012 budget directs any future LRSP units be prioritized to serve chronically homeless residents that are on the Department of Human Services waiting list for Permanent Supportive Housing. Currently, the District has funded its program housing program for the chronically homeless — the Permanent Supportive Housing Program — with separate funding. By using the Local Rent Supplement Program to fund Permanent Supportive Housing, the ability to provide rent subsidies to the thousands of other families who need help would be compromised.

The Council voted conditionally to restore \$1.6 million to the Local Rent Supplement Program, as part of a package of programs that will be restored if revenues increase beyond projected levels (as described above). The \$1.6 million would be used to undo a mayoral proposal to use 175 LRSP units that had been built, but were not yet occupied, for participants in DC's permanent supportive housing program.

The Mayor also proposed to eliminate one of three major components of the Local Rent Supplement Program but this was rejected by the Council. The component in question provides tenant-based 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.) Mayor Gray's proposed budget would have phased out the tenant side of the LRSP program— a program currently serving approximately 670 families— by not allowing new families to enter the program once a family leaves. The Council rejected this proposal, however, meaning that LRSP vouchers will continue to be kept in use.

Even with these potential changes the relatively flat funding level for DCHA has several implications:

- **No progress in reducing housing waiting lists.** Some 28,000 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 2012 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 2012 — and by changing LRSP policy so no new families can join — means that the District will be nearly 4,200 units behind its goal of 5,900 units in FY 2012, six years after the Task Force report.

- **Limited tools to make housing affordable for very low-income families.** LRSP is the main tool 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. Without rent subsidies, housing supported by the HPTF typically is affordable only 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.

## **Other Affordable Housing Funding in the FY 2012 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 2012, the Bridge Subsidy Program will receive \$6 million and represents the fourth year the program has received flat funding. The flat funding means that the program will not be able to expand to serve additional residents in FY 2012.

### **Permanent Supportive Housing**

The Permanent Supportive Housing Program, known as Housing First, was created in FY 2009 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 2012, the gross funding level for PSH—including both federal and local funds—will fall from \$30.3 million in FY 2011 to \$26.8 million in FY 2012, a 12 percent reduction, after adjusting for inflation. This reflects a large drop in federal funds, due to the expiration of start-up federal aid, which will be offset in part by a substantial increase in local funding.

Despite the funding drop, the number of households served by PSH would not change. The FY 2012 budget for PSH will cover some of the program’s expenses using two other housing programs. First, \$4 million in federal housing vouchers will be used to cover the housing costs of some PSH participants. In addition, the budget requires that the Mayor proposed and the Council approved a provision to devote 175 planned local rent supplement vouchers for PSH participants.

The DC Council adopted a conditional provision that would add funding to PSH so that the 175 local rent supplement vouchers could be used for other families. This will go into effect if revenues in 2012 are higher than projected in the adopted 2012 budget.

Reducing funding for PSH and using other housing programs to meet the program's needs means that these programs will not be available to house approximately 425 low-income families on the DC Housing Authority's waitlist, currently at over 28,000 households, that could have been housed with these federal and local vouchers.<sup>2</sup>

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<sup>2</sup> This figure assumes the \$4 million in federal vouchers could serve 250 families based on the average cost of a federal housing voucher being equivalent to the average cost of a tenant-based local rent supplement voucher, or \$15,792 annually. The remaining 175 families come from local rent supplement vouchers that are being used to support the PSH caseload.