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What's in the Mayor's FY 2012 Proposed Budget for Affordable Housing?

SUMMARY

MAYOR'S PROPOSED BUDGET

- The Mayor's FY 2012 proposed local budget for affordable housing is $84 million, an increase of 10 percent over the FY 2011 budget, after adjusting for inflation. This increase reflects the need to use local funds to replace expiring federal funds in the Permanent Supportive Housing program — a program that provides supportive housing for chronically homeless individuals and families

- In fact, through cuts and policy changes, the Mayor's FY 2012 budget would significantly weaken the capacity of DC's affordable housing tools to respond to the affordable housing needs of the District's low-income residents.

- Two of the most significant changes in the Mayor's proposed budget would be a cut of $18 million from DC's Housing Production Trust Fund — the main source for affordable housing construction and renovation — in FY 2012 and futures years, and a phase out of a portion of the Local Rent Supplement Program (LRSP). LRSP is the main tool the District has to make housing affordable to DC's very low-income residents, or those making less than $30,000 a year. The FY 2012 budget would change the program so that as families leave, no new families can join.

The Mayor's FY 2012 proposed general fund budget for affordable housing is $84 million from a variety of sources. This represents a $7 million increase, or 10 percent, from the FY 2011 budget, after adjusting for inflation. The proposed increase in funds does not represent an expansion of services, but is largely a result of the fact that the District needs to replace expiring federal funds that are being used in 2011 to support the Permanent Supportive Housing program — which provides housing and support services for chronically homeless individuals and families. In fact, the FY 2012 proposed budget would make significant changes to some of DC's main affordable housing programs that would weaken the District's capacity to respond to the affordable housing needs of DC's low-income residents.

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 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. In FY 2012, as a result of several large commercial property sales and an increase in single family home sales, total resources for the HPTF would jump higher.

However, this expected increase would be wiped out by the Mayor's proposed FY 2012 budget, which proposes to cut back funding for affordable housing and would fund certain parts of the affordable housing continuum largely by relying on funding from one program to fulfill another program's purpose. In fact, the Mayor's FY 2012 budget proposes to use all of increased funds flowing into the Housing Production Trust Fund to replace existing funding for the Local Rent Supplement Program. In addition, the Local Rent Supplement Program and federal vouchers would be used under Gray's budget to cover part of the existing expenses of Permanent Supportive Housing Program. The result is a weakening of the capacity of the District's affordable housing tools to respond to the affordable housing needs of the District's low-income residents.

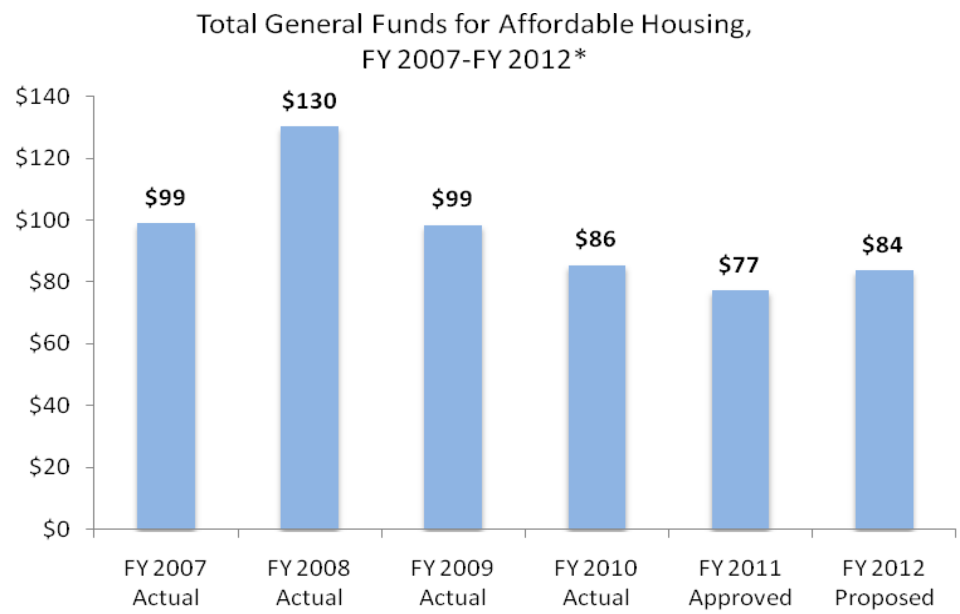
Analysis of the Proposed FY 2011 Housing Budget

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 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 and FY 2011. Total funding for FY 2012 is $84 million, a 10 percent increase over FY 2011. Yet, the increase is largely entirely due to the fact the federal dollars that support the Permanent Supportive Housing Program in FY 2011 will no longer available and as a result the proposed budget would add local dollars to keep the program whole. As described in more detail below, the FY 2012 budget also proposed to make major reductions to the Housing Production Trust Fund, and would significantly weaken the Local Rent Supplement Program.

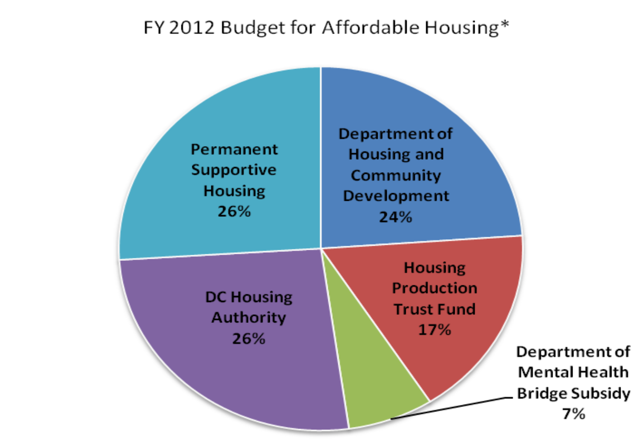
FIGURE 1
FUNDING FOR AFFORDABLE HOUSING REMAINS WELL BELOW PRE-RECESSION LEVELS



*Dollars in millions, all figures are adjusted for inflation to equal FY 2012 dollars. Total funds for affordable housing include the general fund budgets for: Department of Housing and Community Development, the Housing Production Trust Fund, the DC Housing Authority, the Department of Mental Health's Bridge Subsidy Program, and the Department of Human Services' Permanent Supportive Housing Program. 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 2 shows the contribution each of the major affordable housing sources funded from District local funds makes to the total $84 million in funding for affordable housing in FY 2012. Table 1 (page 4) looks at the change in funding for each of the major affordable housing sources from FY 2006-FY 2012.

FIGURE 2: THE FY 2012 BUDGET REQUEST LARGELY DIVIDIES THE $84 MILLION IN FUNDS FOR AFFORDABLE HOUSING AMONG FOUR MAJOR AREAS



*This chart reflects the proposed shift of $18 million from the Housing Production Trust Fund to the DC Housing Authority in FY 2012

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

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 Proposed**
Department of Housing and Community Development	$6	$20	$17	$27	$19	$20
Housing Production Trust Fund	$64	$74	$30	$13	$15	$14
DC Housing Authority	$25	$32	$32	$26	$23	$22
Permanent Supportive Housing	n/a	n/a	$14	$12**	$14	$22
Department of Mental Health Bridge Subsidy	$4	$4	$6	$7	$6	$6
Total	**$99**	**$130**	**$99**	**$86**	**$77**	**$84**

* Dollars are in millions, adjusted for inflation to equal FY 2012 dollars. This table assumes the FY 2012 proposed but cut of $18 million to the Housing Production Trust Fund and shift of $18 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.
** This is the approved figure for FY 2010, at the time this analysis was completed; the actual FY 2010 number was not available. This analysis will be updated when that figure becomes available.

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 $20 million in FY 2012, 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, proposed 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.[1] According to FY

[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).

2012 budget documents it appears that gross funding for HPAP in FY 2012 — federal and local funds combined — will fall to $11 million. This is a $6 million, or 35 percent, decrease from FY 2011. However, the Mayor's budget office has indicated that these figures were incorrectly reported, and that gross funding for HPAP will remain at FY 2011 levels, or $17 million. This analysis will be updated once the corrected figures are released.

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.

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, and the target for FY 2010 is 300 first-time homebuyers. In FY 2011 and FY 2012 DHCD projects to serve even 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 (TOPA) programs. The Mayor's FY 2012 budget proposes to cut $18 million in new funding for the HPTF in FY 2012 and in future years, and keeps in place a limited budget for TOPA that would just cover administrative support for the program.

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

FIGURE 3: ALL OF THE INCREASE IN FUNDS FOR THE HOUSING PRODUCTION TRUST FUND WILL BE TAKEN IN FY 2012 FOR OTHER PROGRAMS

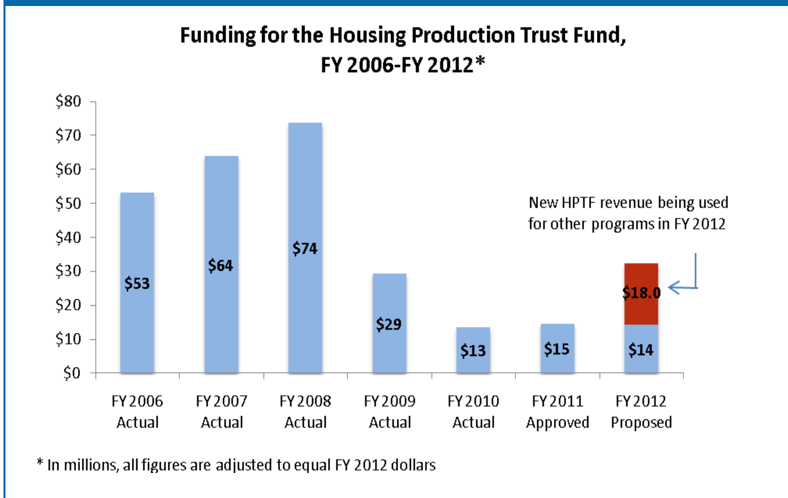


TABLE 2
THE HOUSING PRODUCTION TRUST FUND'S CAPACITY WILL BE SIGNIFICANLY REDUCED OVER THE NEXT FOUR YEARS*

	FY 2012	FY 2013	FY 2014	FY 2015
New Resources from dedicated taxes	39.0	40.3	41.5	42.7
Less: Debt Service on Revenue Bonds	(6.7)	(9.7)	(12.7)	(14.5)
Total Subsidy	*32.3*	*30.7*	*28.9*	*28.1*
Less: Transfer of Funds to DCHA	(18.0)	(18.0)	(18.0)	(18.0)
Net for HPTF Activities	*14.3*	*12.6*	*10.9*	*10.2*
Less: Administrative Costs	(5.4)	(5.4)	(5.4)	(5.4)
Available for core HPTF purposes	**$8.9**	**$7.3**	**$5.5**	**$4.8**

*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 Office of Budget and Planning.

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 FY 2012 budget proposes to take all of the increase in new funding for the HPTF, resulting in an $18 million cut in FY 2012, and in future years as well. Beyond this cut, other demands on the HPTF will mean that from FY 2012-FY 2015, 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 $39 million in deed taxes will flow into the Trust Fund in 2012, 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 2015.

- 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 $39 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 $32 million.

- The FY 2012 budget proposes to remove $18 million in new revenue and transfer it to the DC Housing Authority to fund DCHA's Local Rent Supplement Program. After that, the HPTF would be left with just $14 million in total resources.

- The FY 2012 budget expects to take another $5 million for administrative purposes leaving just $9 million— out of $39 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. The proposed 2012 budget would likely allow DHCD to fund all projects that are left in the pipeline, 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, 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 FY 2012 proposed 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 would 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 proposed DC Housing Authority subsidy for FY 2012 is $4 million, a $19 million decrease, or 83 percent, from FY 2011. The FY 2012 budget proposes the keep 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 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 would remain at the 2011 level.

In addition, the FY 2012 Budget Support Act (BSA) — the legislation that accompanies the budget request in order to make any statutory changes needed to pass the budget into law— would make several important changes to the Local Rent Supplement program that would reduce the capacity of the LRSP program to continue to serve DC's low-income families.

- **Phasing out of the tenant vouchers.** The local rent supplement program has three major components. It 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. The proposed 2012 budget would phase 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. 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 over 28,000 households.

- **Using LRSP to fulfill other housing program purposes.** 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 proposes that any funded LRSP units that are not currently filled will 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

These changes have 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 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 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 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 a rental subsidies.

In FY 2012, the proposed local funds budget for Permanent Supportive Housing is $22 million, an increase of 54 percent over the FY 2011budget of $14 million. The increase in funds reflects the need to replace expiring federal dollars. The gross funding level —both federal and local—would fall from $28.5 million in FY 2011 to $26.7 million in FY 2012, a 6 percent reduction, after adjusting for inflation, and the number of households served would not change. The FY 2012 budget for PSH would find savings by covering expenses for PSH participants using two other housing programs. First, Mayor Gray proposed saving $4 million by using federal housing vouchers to cover the housing costs of some PSH participants. Second, additional savings would be generated by requiring that 175 planned local rent supplement vouchers be prioritized for PSH participants.

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.[2]

[2] 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.