

April 17, 2014

WHAT'S IN THE MAYOR'S PROPOSED FY 2015 BUDGET FOR AFFORDABLE HOUSING?

Summary of the FY 2015 Budget for Affordable Housing

The fiscal year 2015 proposed general fund budget for affordable housing is \$145 million from a variety of sources. This represents a \$16 million, or 12 percent increase from the approved FY 2014 budget, after adjusting for inflation.

The budget also adds \$30 million in one-time funds for this year, FY 2014, for the Housing Production Trust Fund. When adjusting for those funds, the FY 2015 budget represents a \$15 million decrease from the fiscal year 2014 revised budget, after adjusting for inflation.

Notable increases in the FY 2015 proposed budget for affordable housing include a \$4 million increase to the Local Rent Supplement program (LRSP) that will help create approximately 350 affordable homes for residents, including about 66 that will be set aside for seniors who are moving from nursing homes back into the community. In addition, the proposed FY 2015 budget includes \$4.7 million in local funds to help end chronic homelessness among veterans through the Permanent Supportive housing program. At the same time however, funding for PSH for other chronically homeless individuals and families will fall in FY 2015. It is not clear at this point what the impact of those reductions will be.

The FY 2015 budget also includes language in the Budget Support Act (the legislation that accompanies the budget) that would direct some portions of LRSP to be filled by referrals from the Department of Human Services, rather than the current practice of providing rental assistance to households on the city's waitlist for housing. The budget indicates that LRSP assistance would go to chronically homeless residents, even though these residents typically need intensive case

MAYOR'S PROPOSED FY 2015 BUDGET

- Includes \$145 million for affordable housing, an increase of 12 percent, or \$16 million over the approved FY 2014 budget, after adjusting for inflation.
- Includes \$30 million in one-time funds for DC's Housing Production Trust Fund in the FY 2014 supplemental budget. The HPTF builds and preserves affordable housing in DC. When those funds are considered, the FY 2015 budget represents a drop in funding from FY 2014.
- Includes \$4 million proposed increase to the Local Rent Supplement program (LRSP) which would help create about 350 affordable housing units for very low-income families and individuals.
- Includes \$4.7 million in local funds to help end chronic homelessness for veterans by 2015 through the Permanent Supportive Housing Program. PSH provides housing and supportive services to chronically homeless residents. Unfortunately, PSH funding for other individuals and families would fall in FY 2015.
- Includes language in the Budget Support Act that would direct all tenant based LRSP rental assistance to go to residents that are referred from the Department of Human Services, which may limit the ability to direct rental assistance to low-income families who have high housing costs but do not need additional social services.

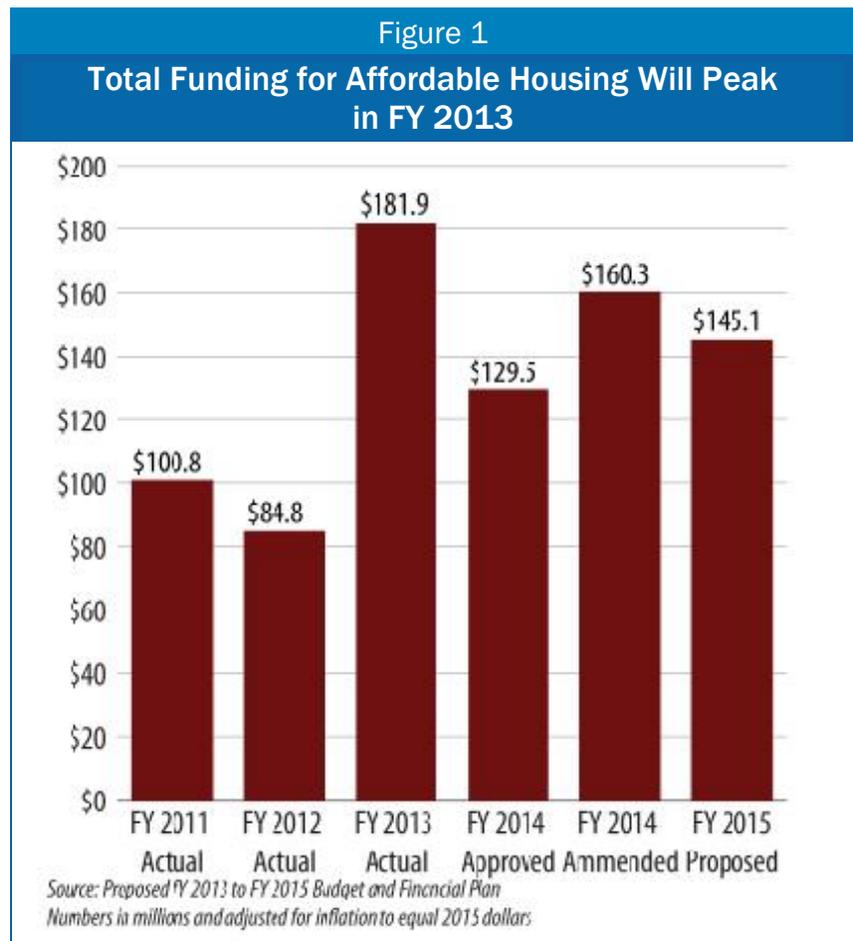
management that LRSP does not offer. Also, the proposed approach could eliminate the ability of the city to provide locally funded rental assistance to help very low-income families whose have very high housing costs burdens but do not need additional social services.

Analysis of the Proposed FY 2015 Housing Budget

The District has created a variety of affordable housing tools, each serving a specific purpose and each critical to making housing available all along the continuum of needs — from homelessness to homeownership — for DC’s low- and moderate-income residents. These tools include:

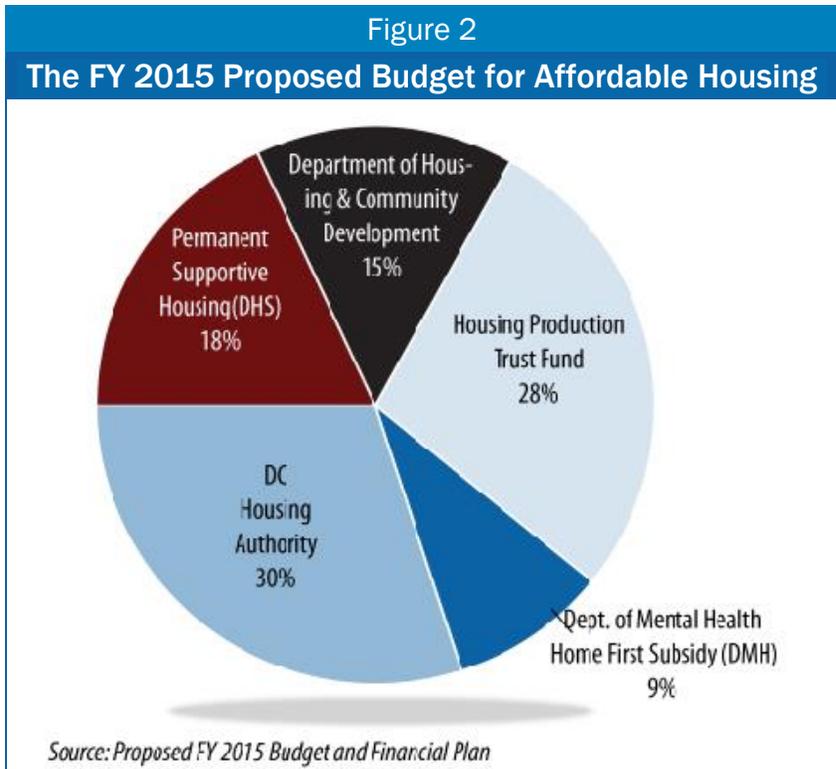
- **The Housing Production Trust Fund** which finances affordable housing construction and renovation, and also provides financial support to tenants who want to purchase their building when it goes up for sale.
- **The Local Rent Supplement Program** which provides rental assistance to help very low-income 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, funding for affordable housing began to fall in FY 2009 and fell continuously through FY 2012 when total funds for affordable housing hit a seven-year low. The nearly 40 percent drop in funding during this period left the city’s affordable housing tools largely stagnant, with funding used to maintain most programs at their prior-year levels. The exception is the Housing Production Trust Fund (HPTF), where resources fell significantly when the recession hit and 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. Moreover, in FY 2012 and FY 2013, the HPTF was significantly cut through the budget process.



Funding for affordable housing hit a peak in FY 2013 when the mayor allocated nearly \$67 million in one-time funds for the Housing Production Trust Fund. The mayor's proposed FY 2015 budget is well below the FY 2013 peak, but it would be far higher than funding in the recessionary years of FY 2011 and FY 2012.

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).



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Figure 1 (see previous page) shows the change in total local funding for affordable housing from FY 2011 — FY 2015. Local funding for affordable housing peaks in FY 2013 while total resources for affordable housing are proposed to be \$37 million, or 20 percent less, in FY 2015.

Total funding for FY 2015 is \$145 million, which is a \$15 million decrease, or 9.5 percent, from the fiscal year 2014 revised budget, after adjusting for inflation (unless otherwise noted, all figures are adjusted for inflation to equal FY 2014 dollars). However, as mentioned previously, the FY 2014 revised budget includes \$30 million in one-time funds for the Housing Production Trust Fund that are not available in FY 2015. When those funds are not considered, the FY 2015 proposed budget for affordable housing is \$16 million, or 12 percent, higher than the FY 2014 budget – and above expenditures in any year since FY 2008.

Nearly \$9 million of the increase comes from two major programs; the Local Rent Supplement Program and Permanent Supportive Housing Program. LRSP is proposed to see a \$4 million increase that will help create approximately 350 affordable homes for very low-income families. PSH will see a \$4.7 million increase to help end chronic homelessness among veterans. In addition, the Department of Behavioral Health's Home First program adds \$5 million in FY 2015, yet those funds reflect a transfer of funding from the capital budget to the operating budget and will not result in additional affordable housing units.

Table 1						
Changes in Funding for DC's Main Affordable Housing Sources, FY 2011 – 2015*						
	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Approved	FY 2014 Amended	FY 2015 Proposed
Department of Housing and Community Development	\$19	\$15	\$16	\$21	\$21	\$22
Housing Production Trust Fund	\$38	\$19	\$102**	\$39	\$69**	\$40
DC Housing Authority Subsidy	\$25	\$23	\$35	\$40	\$40	\$43
Permanent Supportive Housing	\$13	\$21	\$20	\$22	\$22	\$26
Department of Behavioral Health Home First Subsidy	\$7	\$7	\$9	\$9	\$9	\$13
Total	\$100	\$85	\$182	\$130	\$160	\$145

* Dollars are in millions, adjusted for inflation to equal FY 2014 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.

** Figure includes \$67 million in one time funding from the FY 2013 budget and \$30 million one-time appropriation into the HPTF from the FY 2014 supplemental budget.

Figure 2 shows the contribution each of the major affordable housing sources in FY 2015. **Table 1** looks at the change in funding for each of the major affordable housing sources from FY 2011 to FY 2015.

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; the Tenant Opportunity to Purchase (TOPA) which helps low-income tenants purchase their buildings when they go up for sale; the Single Family Rehab Program and the Lead Abatement Program which help homeowners make repairs and remove lead hazards from their home and the Inclusionary Zoning (IZ) program which requires developers to set aside 8 to 10 percent of their units as affordable in return for density bonuses. DHCD also spends local dollars to revitalize DC neighborhoods through the economic development of disadvantaged neighborhoods.

Total local funding for DHCD is \$22 million in FY 2015, not including the Housing Production Trust Fund, which is described separately in this analysis. The proposed DHCD budget is an increase of 5 percent from \$21 million in FY 2014. The increase is largely attributed to a transfer of

\$2.4 million in costs associated with projects that had previously been funded with capital dollars. Taking that into account, the total budget for DHCD is actually \$1.4 million lower than in FY 2014.

Other notable changes include \$1 million for additional local funds for the HPAP program (this is described in greater detail below), \$500,000 for business façade improvements in Ward 8, and \$300,000 for an East End homeownership campaign that will be focused on increasing homeownership in Wards 7 and 8. The increases will be somewhat offset by a reduction of \$1.6 million and nearly 17 full time equivalent positions across the agency and \$2.3 million in reductions in contracts as a result of lower projected revenues in the property acquisition and disposition division.

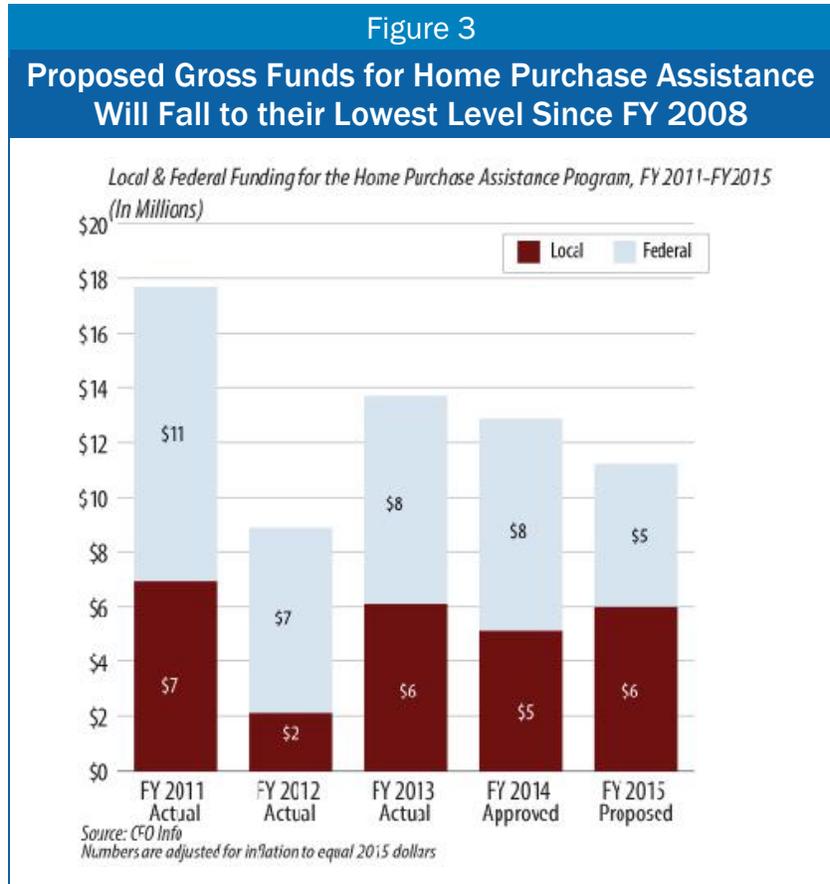
Residential and Community Services Division

The Residential and Community Services Division focuses on providing funding assistance for individual households and community revitalization through commercial revitalization programs. Major programs operated in this division are the Home Purchase Assistance Program (HPAP) and the Single Family Rehab and Lead Safe Washington programs.

Home Purchase Assistance Program

The Home Purchase Assistance Program (HPAP). HPAP provides down-payment and closing cost assistance to help low-income first-time homebuyers.¹ Gross funding for HPAP in FY 2015 — federal and local funds combined — will fall from \$13 million to \$11 million.

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 to purchase homes. This program is called the Negotiated Employee Affordable Home Purchase Assistance program (NEAHP).



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, resources for HPAP fell in the recession. In response, the District has chosen to reduce the loan amounts from \$70,000 to \$40,000 to try to maintain the number of households served despite reduced funding. For FY 2015, the HPAP program faces a \$3 million reduction in federal funds. The mayor's proposed addition of \$1 million would leave the net cut at \$2 million.

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 served. By FY 2013, that number had fallen to 240. In FY 2014 and FY 2015, DHCD projects to serve 260 first-time homebuyers in each year, yet without an increase in funding it is not clear how this will occur.

Single-Family Rehabilitation and Lead Safe Washington programs

Gross funding for the single family rehabilitation program — which helps low-income homeowners finance repairs that address health, safety concerns, building code violations, roofs repairs, and improve accessibility — would decrease from \$10 million in FY 2014 to \$8 million in FY 2015. Funding for the lead-safe program would decrease from \$9.6 million in FY 2014 to \$7.5 million in FY 2015. The lead-safe program provides funds to low-income households (or owners of buildings that have low-income tenants) to help identify and mitigate lead paint hazards.

It should be noted that in FY 2014 funds were significantly increased for the single-family rehabilitation program and lead safe Washington program, using resources shifted from the Housing Production Trust funds. Funding for the single family rehab program increased from \$1 million to \$9.6 million in FY 2014 and funds for the lead safe program increased from \$3 million to \$10 million. This means that the proposed FY 2015 funding for both programs, despite being a decline from FY 2014, still is far higher than in FY 2013 and prior years. At the DHCD performance oversight hearing for FY 2014, the agency noted that the majority of the funds had not been expended but expected that they would be able to do so during the remainder of the fiscal year. It will be important to monitor if DHCD is able to spend that level of funds.

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.

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. DC's real estate market began to heat up again in FY 2011 and resources for the HPTF began to rise. However, in both FY 2012 and FY 2013, the mayor's budget cut approximately \$20 million in new funding for HPTF.

The mayor's proposed FY 2015 budget for the HPTF is \$40 million from dedicated tax revenues. Total resources in FY 2013 and FY 2014 are significantly higher as a result of one-time funds of \$69 million and \$31 million, respectively, that were added to the dedicated tax revenues. (see **Figure 4.**) The one-time funds will help make progress on the mayor's stated goal of 10,000 new affordable housing units and 8,000 preserved affordable housing units by 2020. But the reliance on one-

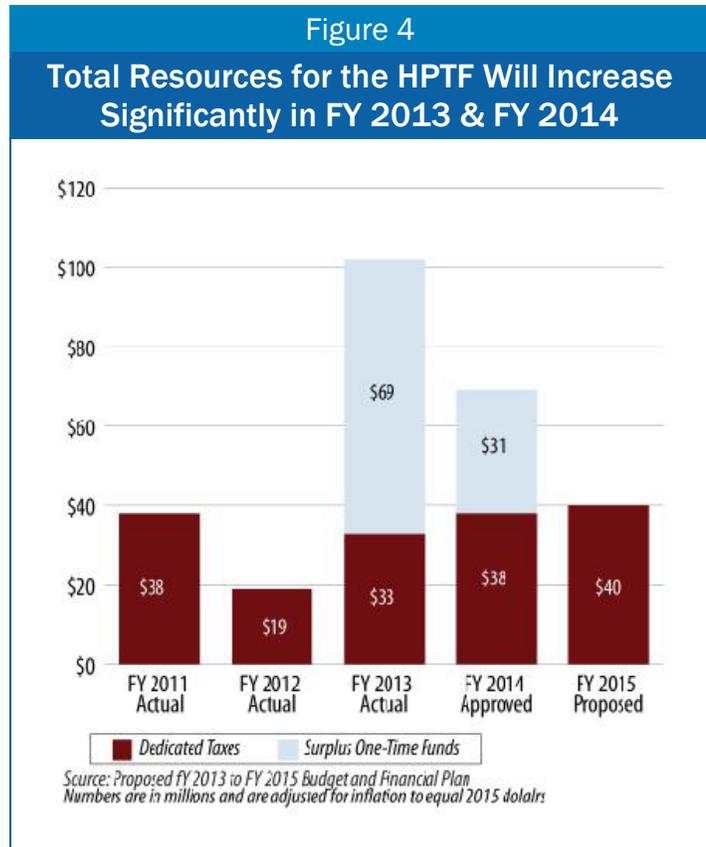
time funds also highlights the limited capacity of the Housing Production Trust Fund under its current funding formula. In order to maintain a significant and predictable investment into the HPTF, DC should look to appropriate additional funds into the HPTF each year to achieve a goal of \$100 million annually for housing production and preservation.

First Right Purchase Program

The First Right Purchase program helps tenant organizations exercise their first-right of purchase when a landlord wants to sell their building, by providing counseling, earnest money deposits, and loans. The program is one of DC's key anti-displacement tools and helped preserve nearly 1,400 units of affordable housing over the last decade.

During the recession, with limited funding for the Housing Production Trust Fund and federal reductions to the federal Community Development Block Grant funds — two of the major sources for First Right purchase funding — funding was not available to support tenant purchase efforts at a meaningful level. In fact, while DHCD has a stated goal of funding 100 units through First Right Purchase, just 36 units were funded in FY 2012 and 50 units in FY 2013. Now that significant resources have been added into the HPTF in FY 2013 and FY 2014, it is likely that the District can support additional tenant purchase projects.

With over 5,000 units of rental housing put up for sale in FY 2012 and at least 45 tenant groups registering as a result, a goal of 100 units supported through First Right Purchase per year is too low. DHCD should increase its goal – starting with a goal of 300 units in FY 2015.



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 the Local Rent Supplement Program (LRSP) that was created in 2007 following a recommendation of the city's 2006 housing task force.

The proposed DC Housing Authority subsidy for FY 2015 is \$43 million, a \$3 million increase from FY 2014. The proposed budget includes \$4 million in additional funds for the Local Rent Supplement Program that will help create about 350 new housing units affordable to very low-income families and individuals. Once accounting for inflation adjustments however, the net increase to the Housing Authority subsidy is \$3 million. It is not clear how DCHA will absorb the \$1 million net reduction.

The majority of the additional \$4 million for LRSP will go toward expanding the project- and sponsor-based side of LSRP, which ties rental assistance to specific projects or non-profit organizations to provide housing to very low-income DC residents. The \$3 million in funding for this program should support about 280 additional LRSP rental subsidies.

The other \$1 million will go toward expanding the tenant based side of LRSP, which provides rental assistance directly to families or individuals, allowing them to make a home on the private market affordable to them. In FY 2015, the mayor proposes to direct these subsidies to seniors who are exiting nursing homes to live back in the community. The \$1 million should support approximately 66 seniors to move out of nursing homes.

This would be the third year in a row that LRSP has been expanded. The Comprehensive Housing Strategy Task Force set a goal in 2006 for the District to create roughly 14,600 subsidies in 15 years, or about 1,000 subsidies a year. Including the FY 2015 proposed additions, the District will have funded about 3,080 households after nine years. With the recent additions, the District still will be approximately 5,820 units behind its goal of 8,900 units in FY 2015, nine years after the Task Force report was released.

This highlights that the increases to affordable housing programs in the proposed budget are largely focused on affordable housing production rather than rental assistance. While increases in production are clearly needed, it can take several years before the housing is available. The mayor's budget does not include a sufficient increase to the tenant-based side of LRSP that can deploy assistance quickly to help meet some of the District's affordable housing needs. Increasing funds for tenant-based LRSP could help ensure DC begins to address some of its unmet affordable housing needs both now and in the future.

Another area of concern over LRSP funding in the mayor's proposed budget is language in the Budget Support Act (BSA) that would direct that all newly funded Local Rent Supplement vouchers to be filled with referrals from the Department of Human Services based on assessments. Currently, project- and sponsor-based LRSP slots — which are managed and owned by nonprofit providers — are largely filled by waiting lists that individual providers maintain. Tenant-based LRSP slots are provided to families on the DCHA waitlist for housing.

While the goal may be to ensure slots are filled with families and individuals who DC's leaders feel are in the highest need of housing, it is not clear how the agency would target these slots. For example, the Chief Financial Officer's Fiscal Impact Statement on the BSA notes that DHS plans to fill these slots with chronically homeless individuals and families. Yet, it is generally agreed that the best program for chronically homeless residents is Permanent Supportive Housing which comes with funding for both housing and intensive case management services to address the significant barriers these residents face. LRSP does not include any service funding.

Moreover, if all tenant-based LRSP units are targeted to chronically homeless residents, the District would not have a tool to quickly address the needs of residents who need affordable housing and whose only barrier is being very low-income. Given the District's very high housing costs, tens of thousands of DC households need assistance to address housing burdens but may not need other social services; LRSP is the best tool to help these households.

Other Affordable Housing Funding in the FY 2013 Budget

Affordable housing programs are also carried out in two other agencies, through the Home First Program at the Department of Mental Health and the Permanent Supportive Housing program within the Department of Human Services.

Home First Program

The Home First program at the Department of Behavioral 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. The FY 2015 budget for the Home First program is \$13 million. This appears to be an increase, but it entirely reflects a transfer of \$5 million in funding for this program from the city's capital budget to the operating budget. The funding is now reflected in the operating budget because of services tied with the affordable housing units. When this shift is taken into account, the FY 2015 budget is essentially the same as the FY 2014 budget.

Permanent Supportive Housing

The Permanent Supportive Housing Program, known as Housing First, was created in FY 2009 with \$19 million to place chronically homeless individuals and families into permanent supportive housing with case management services. The program contained a capital component for site acquisition and renovation needs and an operating component for case management services and ongoing operating costs such as rental subsidies.

In FY 2015, the local budget for Permanent Supportive Housing is \$26 million, a 20 percent increase from the FY 2014 budget. The additional funding includes \$4.7 million to help end chronic homelessness among veterans by 2015. The gross funding level — both federal and local — would increase, from \$29 million in FY 2014 to \$32 million in FY 2015. However, funding to assist chronically homeless families and individuals who are not veterans would fall. At this point, it isn't clear how this would impact existing families or individuals in the program. But the reductions mean

that DC will not be able serve additional residents in FY 2015 who are not chronically homeless veterans.

For a more detailed analysis of the Permanent Supportive Housing Program, see DCFPI's toolkit piece on the FY 2015 budget for homeless services at: <http://www.dcfpi.org/fy15-budget-toolkit>.