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Preserving and Expanding Affordable Housing in DC Recommendations to the New Mayor and DC Council

Summary

The District has experienced significant economic development over the last 15 years. And while this has produced many positive benefits for DC, it has also contributed to a significant loss of low- and moderate-cost housing. The rapid rise in rent and home prices has left many households to spend half or more of their income for housing and made it impossible for low-income working families to access many DC neighborhoods. Economic diversity across the city —through the creation and preservation of affordable housing – should be an important goal for the District in order to provide residents of all income levels access to neighborhoods with amenities, transportation, and jobs.

Setting a goal for a substantial increase in affordable housing production and preservation, and ensuring a robust set of tools are available will be key to achieving meaningful progress on the District's affordable housing needs. In order to do that, we suggest that the mayor-elect:

- ❖ ***Create 22,000 Affordable Homes by 2020.*** A recent study by the Community Foundation and the Urban Institute identified a current gap of 22,000 affordable units for very low-income families.
- ❖ ***Develop an Affordable Housing Preservation Plan and Strategy.*** The District still has some neighborhoods where housing costs are reasonable. And throughout the city there are a number of affordable buildings that may be lost as restrictions on their rents expire. Without a plan and strategy to preserve existing low-cost housing, DC will continue to lose opportunities for cost-effective approaches to preserve mixed-income and diverse neighborhoods.
- ❖ ***Provide \$100 Million Annually for DC's Housing Production Trust Fund.*** The HPTF is DC's main source for affordable housing construction and preservation but has been hampered by significant plunges in funding. DC, led by Mayor-elect Bowser, recently passed a law that would annually contribute \$100 million into the HPTF. It is important then to identify resources in order to implement it. It will be one of the most critical tools to help meet the need to build and preserve more units.

- ❖ ***Increase Support for and Strengthen the Local Rent Supplement Program So That It Serves More Vulnerable Populations.*** Greater support of LRSP is a critical tool to help meet the need for affordable homes for 22,000 low-income households. In addition, the District should examine how changes to program eligibility could help better serve the variety of vulnerable populations that need affordable housing assistance.

Preserving and Expanding Affordable Housing in DC

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Issue #1: The District Should Build 22,000 Units of Low-Cost, Affordable Rental Housing by 2020

Over the last decade, DC has experienced a rapid rise in housing costs that has contributed to a substantial loss of low-cost housing stock. The District will need to create at least 22,000 units of new low-cost affordable housing to help meet the current need. In addition, the District will need to add another 55,000 units of low- to moderate-cost rental housing to meet the forecasted need of the future workforce between now and 2032.¹

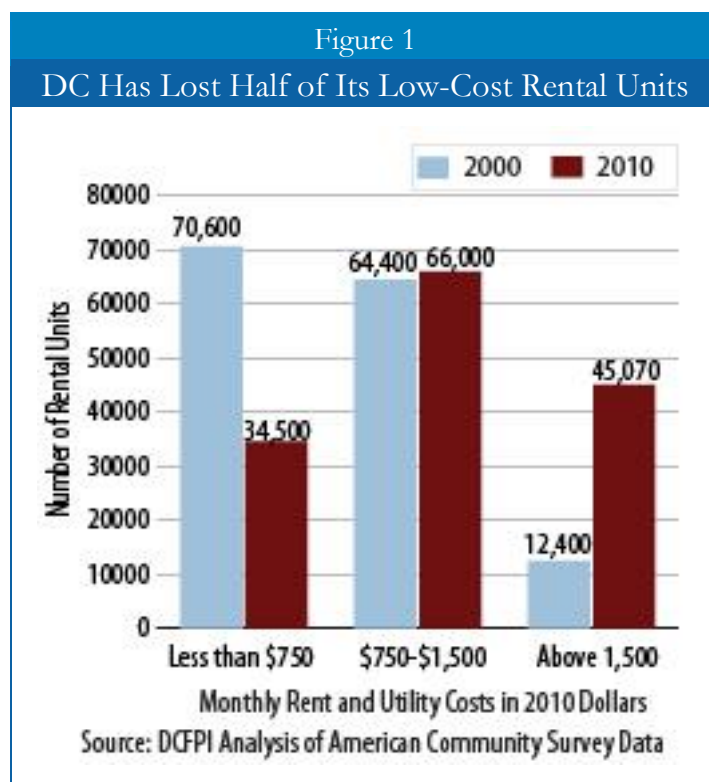
Overview of the Need for Affordable Housing for Low and Moderate-Income Residents.

Since 2000, the number of low-cost rental units in the city has fallen by half, due primarily to rising prices. (See **Figure 1**).

The incomes of DC households have not kept pace with increasing costs; in fact, incomes were stagnant for most low- and moderate-income households while growing slower than housing costs for many others.

Increasing housing costs and stagnant incomes mean that a growing share of DC households' face severe housing cost burdens. Since 2000, the number of households paying more than half of their income on housing has risen by 15,000, and this occurred almost exclusively among renter households.

Very low-income households are the most likely to face these severe housing burdens, with just under two-thirds paying more than half of their income on rent in 2010. Paying more than half of one's income on housing is considered a severe housing burden by the U.S. Department of Housing and Urban Development and can leave low-income families with little left to take care of other necessities like food, clothing, medicine, and transportation.



¹ The District will need to add new housing affordable to current and future residents at a variety of income levels to meet expected demand. This analysis focuses on needed housing for low- and moderate-income residents.

Estimating the Need for Additional Housing Affordable to Low- and Moderate-Income Residents. The Community Foundation for the National Capital Region, in partnership with the Urban Institute and Washington Area Council of Governments recently issued a report examining housing security in the Washington, DC region. They reported that there was a current gap of 22,100 housing units that would be affordable for extremely low-income renter households, or those households earning less than \$31,850 for a family of four (30 percent of area median income).

In order to achieve this goal, the mayor will need sufficient tools, a strategy and long-term vision to see it happen. Three of the most critical tools for the mayor will be: a strategy for preservation of affordable housing, ensuring the Housing Production Trust Fund has sufficient and stable resources, and that DC's Local Rent Supplement program is increased and modified to serve a wider variety of vulnerable populations. These tools are discussed below.

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Issue #2: The District Should Develop an Affordable Housing Preservation Plan and Strategy

One of the key ways to help the District meet the need for affordable housing is to preserve the low-cost housing that currently exists. DC's economic boom has led to a significant loss of low-cost housing, as rents in private market housing rise and as owners of subsidized housing face financial incentives to opt-out of keeping their buildings affordable. Without a clear strategy to preserve currently affordable housing, the District will lose cost-effective opportunities to maintain mixed-income, diverse neighborhoods across DC.

Preservation of existing affordable housing is cost-effective and helps people stay in the communities that they have been part of for some time. Various preservation methods cost just half what it would cost to build new affordable housing and can include upgrades such as energy efficiency that create ongoing savings for tenants and landlords.²

The District has many tools to address the need for preservation of affordable housing. While there have been some very important successes, the lack of coordinated, proactive policy for preservation has led to many missed opportunities for preservation, resulting in the loss of whole communities to sale, opt-out, or condominium conversion.

A working group of the DC Preservation Network—which is a group of community-based organizations and government agencies working to preserve affordable housing in the District—is in the process of developing a preservation strategy for the District that should be available in late December. Below is a summary of that strategy that we believe the new administration should undertake.

The goals and benefits of the housing preservation strategy should include:

- ❖ Maintain diversity in neighborhoods – economic, race/ethnicity, and age
- ❖ Prevent displacement of low- and moderate-income residents
- ❖ Preserve existing District and federal subsidized housing, including public housing
- ❖ Preserve housing serving residents with special needs such as persons with disabilities, formerly homeless, low-income seniors and returning citizens
- ❖ Maintain the stock of affordable market rate rental housing

Preservation Implementation. The District will need to implement its preservation strategy under the direction of the mayor, and it will require coordination among a number of partners. To do so:

² U.S Department of Housing and Urban Development (2013).

- ❖ The District should create a Preservation Team made up of top officials from District housing agencies, Office of Planning, Office of the Deputy Mayor for Planning and Economic Development and a representative from the DC Preservation Network to address preservation opportunities on a timely basis, and convene at least quarterly to review progress made and adjust preservation strategy to current conditions. Agencies should establish protocols for how to operate collectively.
- ❖ The Department of Housing and Community Development should designate a senior executive level staff person to support the work of the Preservation Team, coordinate preservation efforts across agency lines, and serve as the chief policy analyst and advocate for preservation in DC Government.
- ❖ The Preservation Team should work with the DC Preservation Network – a group of non-profits developers, tenant organizers and government officials -- which already monitors affordable rental properties and can alert officials, agencies, and Network participants about at-risk projects. DCPN can serve as the early warning system for preservation opportunities as well as engage key players in preservation efforts.

Important Criteria for When and How to Preserve Affordable Housing. Given limited resources, the District will need to adopt a system to help prioritize what affordable housing should be preserved. Some important considerations include:

- ❖ ***Preservation of Affordable Housing with Federally Funded Rent Subsidies.*** Preservation of project Based Section 8 multi-family rental buildings in the District should be a high priority. These privately owned properties have affordable rents, subsidized by annual appropriations from the federal government, at no expense to the District.
- ❖ ***Preservation of Affordable Housing for Very Low- Income Residents.*** Very low-income residents in the District face the greatest challenges finding an affordable place to live. Therefore, the District should prioritize preservation of affordable housing that houses DC's lowest income households, or those making less than 30 percent of the area median income (or \$32,000 a year for a family of four).
- ❖ ***Preservation of Affordable Housing with Vulnerable Populations.*** Because of difficulty with mobility, limited incomes, and discrimination, certain groups of residents may have a harder time finding affordable housing and can also be particularly vulnerable to homelessness. Preserving affordable housing that would allow vulnerable populations to remain housed should be an important criteria for the District. These include seniors who may be living on low fixed incomes, persons with disabilities who may require certain accommodations, or returning citizens with criminal records.
- ❖ ***Preservation of Affordable Housing that Would Maintain Economic Diversity.*** Too often, as neighborhoods develop, economic diversity is significantly reduced and low-income residents are not able to access many neighborhoods. For example, in 2000, nearly two-thirds of DC's census tracts had median rents less than \$800 a month. By 2006-2010, less than one in four census tracts had median rents less than \$800 a month. With the District

becoming an increasingly economically segregated city, preservation of affordable housing that will help maintain economic diversity in neighborhoods should be prioritized.

- ❖ ***Preservation of Affordable Housing Near DC Funded Economic Development Projects.*** Publicly funded economic development projects, such as the Nationals Baseball Stadium or DC streetcar network, lead to a significant increase in housing prices located nearby. Therefore, the District should prioritize preservation of affordable housing that is located within a half mile of publicly funded economic development projects.
- ❖ ***Preservation of Affordable Housing Near Transit.*** Preserving affordable housing near transit allows low-income families to keep their housing and transportation costs low and provides them access to amenity rich, livable neighborhoods with access to jobs. Therefore, the District should prioritize affordable housing preservation that is located within a half mile of a Metro station, or a quarter mile of a Metrobus priority corridor or streetcar line.

Second tier criteria that could be used to prioritize preservation, when properties are relatively equal on the criteria above, include: housing with low-rent levels, housing with a high probability of being lost and housing with a low-cost per unit to preserve.

Preservation Methods and Tools. DC's preservation strategy will need a variety of approaches to accomplish its goals across a wide array of subsidized and unsubsidized housing buildings. Following are some of the methods and tools that the DC Preservation Network is exploring to carry out the preservation strategy:

- ❖ ***Acquisition and Renovation Funding:*** Increase local funding for the Housing Production Trust Fund to at least \$100 million per year and the project/sponsor based Local Rent Supplement Program as primary sources of capital and operating subsidy for preservation. Maximize the use of federal resources including Low Income Housing Tax Credits, Community Development Block Grant, tax-exempt bonds and other sources to fund acquisition and renovation of properties.
- ❖ ***One-for-one Replacement:*** Aim to at minimum maintain the same configuration of affordable units in projects being preserved and at least replace one-for-one the affordable units in redevelopment projects where additional density is requested through the planned unit development (PUD) process.
- ❖ ***Incentives to Extend Affordability:*** Establish a program of incentives for affordable housing providers to extend periods of affordability in exchange for property tax abatements, favorable refinancing or other benefits. The incentives should have a set dollar amount that is budgeted annually through DC's appropriations process.
- ❖ ***Opt Out Legislation.*** Adopt and put to immediate use legislation that will give the District the right to purchase upon an owner opting out of a project based Section 8 contract or other federal subsidy programs.

- ❖ ***TOPA and DOPA.*** Increase and set aside funding annually for TOPA (Tenant Opportunity to Purchase Act) and DOPA (District Opportunity to Purchase Act) to acquire affordable properties that are offered for sale.
- ❖ ***Asset Management.*** Strengthen asset management monitoring and technical assistance to affordable housing owners and operators where needed by the Department of Housing and Community Development (DHCD) and the DC Housing Finance Agency (DCHFA).
- ❖ ***Federal Preservation Initiatives:*** Utilize federal preservation policies and programs – such as rental assistance demonstration (RAD), Section 8 transfer authority and others - when complementary to District strategies and resources for preservation.
- ❖ ***Low Cost Financing.*** Develop an apartment assistance program to provide low cost financing for renovations and energy retrofits to owners who agree to maintain affordable rents.
- ❖ ***Code Enforcement.*** Enhance the Department of Consumer and Regulatory Affairs’ (DCRA) proactive code enforcement to ensure properties are adequately maintained and maintain housing quality standards in all public housing units.
- ❖ ***Building Repair.*** Adequately fund and prioritize the use of the District’s Building Repair Fund to address serious Housing Code violations that the owner has not remediated.
- ❖ ***Receivership.*** Strengthen and utilize the District’s Receivership law to address deferred building maintenance or failure to pay utility bills.
- ❖ ***Housing Database.*** Maintain and monitor a comprehensive database of all housing that is currently affordable and alert responsible parties when properties are at risk.
- ❖ ***Pro-active Outreach.*** Pro-actively reach out to owners of subsidized housing well in advance of the expiration of subsidy contracts or the end date for loans in order to determine their future intentions and explore options for preservation.
- ❖ ***Restore Vacant Public Housing Units.*** Promptly return vacant units to service.
- ❖ ***Modernize and Upgrade.*** Apply for all available capital financing from HUD and other sources to modernize and upgrade public housing properties.
- ❖ ***Maintain permanent affordability in public housing properties.***
- ❖ ***Use All ACC Authority.*** Fully utilize Annual Contributions Contract (ACC) authority—which is the operating subsidy for public housing—in order to maximize the number of public housing units authorized by the U.S. Department of Housing and Urban Development.

Preserving and Expanding Affordable Housing in DC Recommendations to the New Mayor and DC Council

Issue #3: The District Should Appropriate \$100 Million Annually into DC’s Housing Production Trust Fund

The Housing Production Trust Fund (HPTF) supports the construction, rehabilitation, and acquisition of housing affordable to low- and moderate-income residents. Over time, it has become the District’s largest locally funded affordable housing program. Yet, low and volatile funding in recent years has significantly weakened the HPTF’s ability to address DC’s affordable housing challenges. The District recently passed a law introduced by Councilmember Bowser that calls for the District to appropriate \$100 million annually into DC’s Housing Production Trust Fund, but it will be passed subject to appropriations. Mayor-elect Bowser should ensure that this bill can be implemented by identifying the necessary resources.

In addition, the District should identify a more stable source of funding for the HPTF. Because housing developments take years to plan and execute, a predictable stream of funding is needed for developers who are considering a new housing project.

Overview of the Housing Production Trust Fund. Since 2001, the HPTF has built or renovated almost 7,200 affordable housing units throughout the District, with a focus on rental units in Wards 1, 7, and 8. (See **Figure 1.**) The HPTF provides grants and loans to both for- and non-profit developers to support a range of affordable housing development activities.

Funding from HPTF often serves as “gap financing” for projects that have substantial amounts of private financing and need only partial support from the District. This make the Housing Production Trust Fund a very effective financing tool. Each dollar in HPTF awards leverages \$2.50 in private financing, on average.³



³ DC Housing Production Trust Fund and Affordable Housing FY 2012 Annual Report, page 22, <http://dhcd.dc.gov/publication/2012-housing-production-and-affordable-housing-annual-report>.

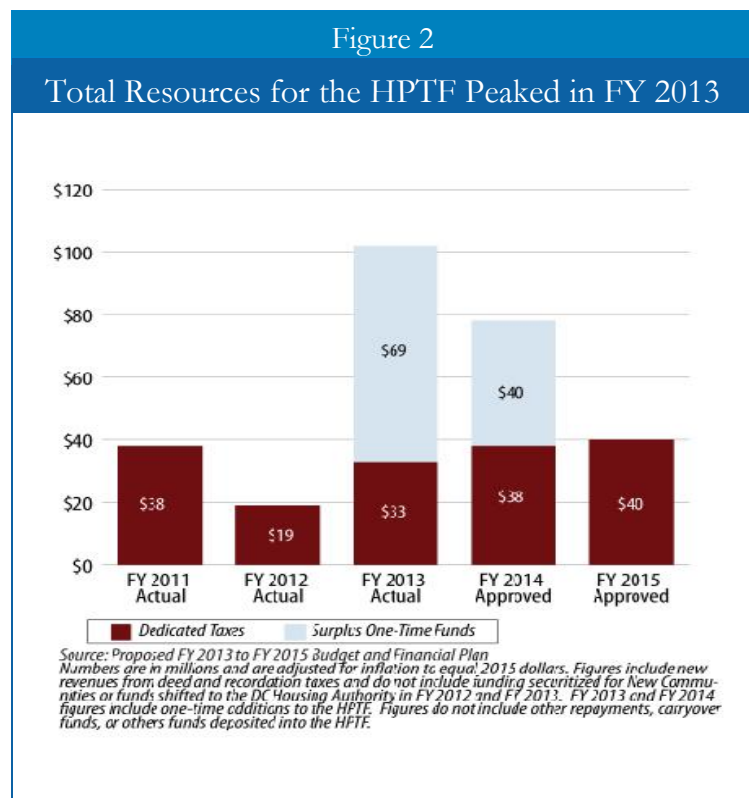
By law, at least 40 percent of the program’s expenditures each fiscal year must serve households with income below 30 percent of area median income (AMI). For a household of four, the maximum income for these units would be \$32,100.⁴ In addition, 80 percent of funded units are reserved for households with incomes of 50 percent AMI or below (including those for households under 30 percent of AMI). At least 50 percent of the units supported by the Trust Fund each year must be for rental housing. Currently, over 80 percent of the units supported by the HPTF are rental units.

The Housing Production Trust Fund Needs an Increased, Stable Funding Source

The HPTF is funded through a portion of DC’s deed recordation and transfer taxes, and as a result, funding fluctuates greatly in real estate booms and busts. Ensuring the HPTF receives \$100 million annually and identifying a more stable source of funding for the HPTF would ensure more predictable, consistent and sufficient funding for DC’s main locally funded tool to create and preserve affordable housing.

Because the HPTF’s funding is tied to the volume of sales in the District’s real estate market, available money for the program is uncertain from year to year. This was a problem especially during the recession that started in 2008, when real estate activity dwindled. As a result, HPTF funding dropped by nearly 80 percent from FY 2007 to FY 2010, from \$64 million to \$13 million. Large unexpected drops in funding can lead the HPTF to become oversubscribed, meaning that there are more commitments for funding than it funds. This can delay affordable housing projects that may be otherwise ready to build.

To avoid oversubscription and to have more reliable funding from year to year, the District should set up a stable funding source for the HPTF.⁵ In FY 2013 and FY 2014, a total of \$110 million dollars in one-time additions were made to the HPTF. (See **Figure 2**.)



⁴ U.S. Department of Housing and Urban Development, FY 2014 Income Limits Documentation System, http://www.huduser.org/portal/datasets/il/il14/index_il2014.html.

⁵ To read more, see: “Affordable Housing in the District Depends on a Stable Housing Production Trust Fund” <http://dcfpi.org/wp-content/uploads/2008/10/10-20-08stablehptfreport.pdf>.

While this provided sorely needed funds for affordable housing projects, it did not provide long-term fund stability. The Trust Fund's appropriation for the current fiscal year, 2015, is just \$40 million.

DC could increase the funding level and stability by funding the HPTF with a set amount of deed transfer and deed recordation taxes rather than relying on a percentage of these taxes, or by establishing an appropriation from the District's general fund each year, as most DC agencies are funded, rather than tying funding to a volatile tax source.

Lastly, the HPTF could continue to be funded with a percentage of deed recordation and transfer taxes, but have a minimum funding amount that would be automatically transferred each year. A bill introduced by Mayor-elect Bowser and passed by the DC Council calls for \$100 million in minimal annual funding for the HPTF, but was passed subject to appropriations.

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Issue #4: DC Should Increase Support for and Strengthen the Local Rent Supplement Program So That It Serves More Vulnerable Populations.

DC's Local Rent Supplement Program (LRSP) was created in 2007 to provide housing that is affordable to District residents with very low incomes. LRSP provides monthly rental subsidies that cover the difference between the rents that very low-income families can afford to pay and the actual monthly cost of rent for the unit. The program stems from the District's 2006 Comprehensive Housing Strategy Task Force (CHSTF), which established a goal of creating 14,600 locally funded rental subsidies in DC over 15 years.⁶ Yet funding for the program has not been sufficient to meet this goal. Nine years later, the program serves about 3,250 households – which leaves DC only a little over a third of the way toward the CHSTF's goal of 8,900 units by FY 2015. In addition, the program could be modified to serve a wider range of vulnerable populations in DC.

Overview of the Local Rent Supplement Program

LRSP is administered by the DC Housing Authority, which also manages the federal Housing Choice Voucher program (formerly called Section 8), which also provides rental subsidies. Rental subsidies in the LRSP program are provided in three different ways:

- 1) ***Tenant-based vouchers*** are provided directly to families or individuals, who can use the voucher for any rental unit under the Fair Market Rent in the District. The voucher stays with the family, even if they decide to move to another rental unit in the District. Typically, tenant-based vouchers are prioritized for families with a homeless preference on DCHA's housing choice voucher wait list. In the summer of 2014, there were approximately 50,000 households on DCHA housing choice voucher wait list with a homeless preference.
- 2) ***Project-based vouchers*** are provided to for-profit or non-profit developers for specific units that they make available to low-income families. Unlike tenant-based vouchers, these vouchers are not portable and stay with the unit. The units must be made affordable over the life of the project. Although it is not required, many project-based vouchers are awarded to developments that also provide supportive services, such as counseling, to the low-income residents. Project-based vouchers are typically awarded to clients who are on the non-profit developer's waitlist.

Sponsor-based vouchers are awarded to a landlord or non-profit group for affordable units they make available to low-income families. Unlike project-based vouchers, these vouchers are portable and can be moved to another unit run by the non-profit or the landlord.

⁶ Comprehensive Housing Strategy Task Force, "Homes for an Inclusive city: A Comprehensive Housing Strategy for Washington, DC," April 5, 2006, available at: <http://dc-chstaskforce.org/default.asp>

Sponsor-based vouchers are awarded only to groups that agree to provide supportive services to residents housed in the affordable units. Sponsor-based vouchers are typically awarded to clients who are on the landlord’s or non-profit’s waitlist.

**Table 1:
Units of LRSP Funded By Year and Type**

| Fiscal Year | Tenant Based | Project/Sponsor Based | Total Funded Units |
|---|--------------|-----------------------|--------------------|
| 2007 | 600 | 581 | 1,181 |
| 2008 | 80 | 457 | 537 |
| 2009 | 0 | 0 | 0 |
| 2010 | 0 | 0 | 0 |
| 2011 | 0 | 0 | 0 |
| 2012 | 0 | 0 | 0 |
| 2013* | 240 | 0 | 240 |
| 2014 | 195 | 585 | 780 |
| 2015** | 240 | 270 | 510 |
| Total Units Funded Since FY 2007 | | | 3,248 |

*All units were awarded to families at DC General Family Shelter. ** 60 units were awarded to seniors leaving DC nursing homes and 75 were awarded to families at the DC General Family Shelter
Source: DCFPI Analysis of the District’s Budget and Financial Plan, FY’s 07-15

Funding for the LRSP program has supported the creation of 3,250 affordable units for very low-income families. Close to 60 percent of LRSP units have been provided through the project and sponsor based components. (See **Table 1.**) The tenant-based program and project sponsor-based program tend to serve two different populations. Nearly 80 percent of project- and sponsor-based LRSP subsidies support efficiencies and one bedroom apartments,

meaning they mainly serve individuals. On the flip side, 80 percent of tenant-based LRSP goes to two-bedroom or larger apartments, meaning that it largely serves families. The difference in population served also helps explain why the average cost per unit is \$14,930 annually for tenant-based LRSP and \$10,120 for project/sponsor-based LRSP.⁷

LRSP is often used in conjunction with other affordable housing programs in the District, such as the Housing Production Trust Fund (HPTF) and Housing First to help create housing that is affordable to the District’s lowest-income residents. The HPTF is used for construction or rehabilitation of affordable housing, and often LRSP funds are added to make units affordable for very low-income residents. LRSP vouchers are also used with the District’s Housing First program, which places chronically homeless individuals and families in affordable housing with supportive services.

Increase Support and Expand DC’s Capacity to Serve Vulnerable Populations

LRSP is an important program because it makes housing affordable to very low-income families or individuals. With an estimated 22,000 unit need for affordable units for very low-income DC households, LRSP will be a critical tool to help meet the need. Either given directly to families or individuals or coupled with gap financing like the HPTF, LRSP can help make sure affordable housing meets the needs of DC lowest-income families and supports DC’s efforts to end chronic

⁷ Data on bedroom size and cost are from a DC Housing Authority handout from 12/6/12. Email reed@dcfpi.org for a copy of the data.

homelessness. Supporting at least 1,000 new units of LRSP each year would help the District make notable progress in addressing the city's affordable housing gap.

In addition, the District should plan for how best to utilize LRSP to meet the current needs of the city and amend the program to meet those needs. To do this, the District should assess the highest priority needs among various vulnerable populations annually, and then allocate LRSP resources accordingly. This should be done in conjunction for planning around the use of other affordable housing tools such as the HPTF, low-income housing tax credits, and affordable housing bonds.

This is important because currently, tenant-based LRSP is awarded to those who have applied for the DC Housing Authority waitlist and have a homeless family preference. Project/sponsor based LRSP is awarded to those who are on a non-profit housing providers wait list who can include both families and individuals. While these groups are important, there are other vulnerable populations—seniors, people with disabilities, returning citizens, and others—who could also benefit from the assistance but are not currently targeted in any way. As an example of how LRSP could be targeted in each year on priority needs, the FY 2015 budget created 75 LRSP vouchers designated for homeless families at DC General and 60 vouchers to seniors who are moving out of nursing homes.

DC commissioned a housing needs assessment from the Urban Institute in FY 2014 to help identify what populations needed housing assistance. That tool could be an important guide for the mayor-elect to use to determine how best to allocate LRSP. This report should be completed before spring 2015.