

*April 11, 2016*

## The Housing Production Trust Fund

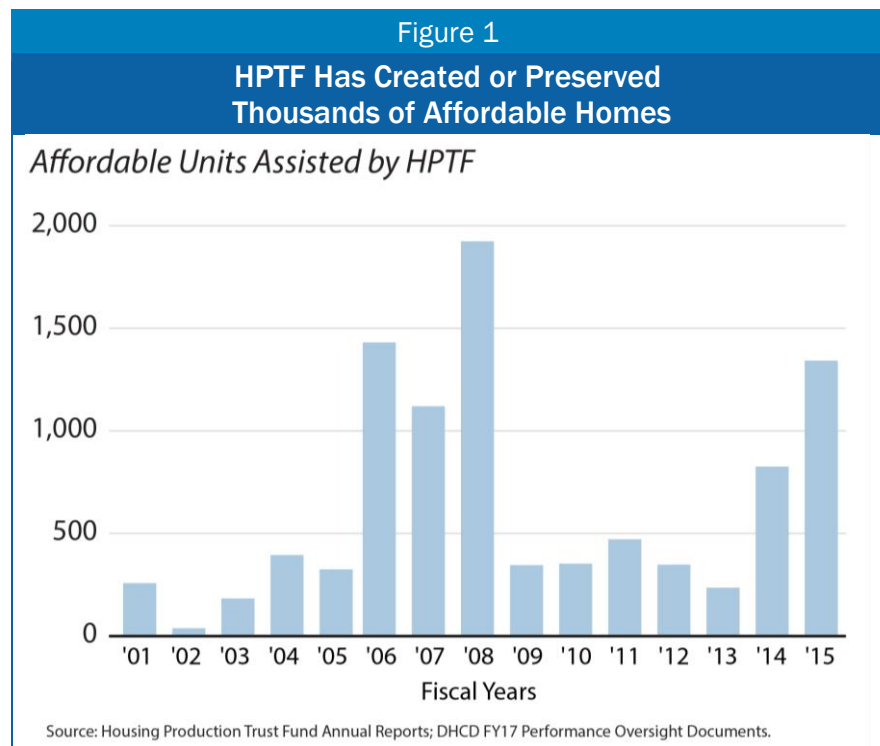
The Housing Production Trust Fund (HPTF) supports the construction, rehabilitation, and acquisition of housing affordable to low- and moderate-income residents. Since 2001, the HPTF has helped build or renovate 9,900 affordable homes throughout the District. It is the District’s largest affordable housing program.

This policy brief provides an overview of the history and use of the Housing Production Trust Fund and highlights two issues of concern: fluctuating funding levels, and the need to direct more funding to housing affordable to extremely low income residents.

### The Housing Production Trust Fund is DC’s Largest Affordable Housing Tool

The HPTF provides grants and loans to affordable housing developers. These funds can be used to acquire, rehabilitate, and build low-cost housing. The Trust Fund assists both homeownership and rental housing.

Funding from the HPTF often serves as “gap financing” for projects that have substantial amounts of private financing and need only partial support from the District. This makes the Trust Fund a very effective financing tool. Each dollar in HPTF awards leverages \$2.50 in private and federal financing on average.<sup>1</sup>



<sup>1</sup> [Housing Production Trust Fund Annual Report](#), FY 2012.

By law, at least 40 percent of the program’s expenditures each fiscal year must serve households with incomes below 30 percent of area median income, or \$32,600 for a family of four.<sup>2</sup> And at least another 40 percent of expenditures must serve households with incomes between 30 percent and 50 percent of the area median. The rest of the funds can serve households with incomes up to 80 percent of the median, or up to \$86,900 for a family of four. (See **Table 1**).

The Trust Fund has been used to create or preserve 9,900 units of affordable housing since 2001.<sup>3</sup> (See **Figure 1**.) An additional 800 affordable units currently are under development with funding committed from the Trust Fund.<sup>4</sup>

By law, at least half of the Trust Fund’s expenditures each year must assist rental housing. To date, approximately three-fourths of the affordable units developed under the Trust Fund are rentals. The rest are homeownership or cooperative units.

Income As A Percent of DC Area Median (AMI)	Maximum Income For A Family of Four	Required Share of HPTF Spending
0-30% AMI	\$32,600	At least 40%
30-50% AMI	\$54,300	At least 40%
50-80% AMI	\$86,900	Up to 20%

Source: DC Code § 42-2801-02; US Department of Housing and Urban Development, Program Income Limits, 2016.

## Until Recently, Funding for HPTF Has Fluctuated Wildly

The HPTF was established in 1988, and first received regular funding in FY 2001. Under legislation enacted in 2002, 15 percent of revenue from deed recordation and transfer taxes are dedicated to the fund each fiscal year.<sup>5</sup> Because real estate transactions fluctuate as the real estate market heats and cools, funding for the HPTF has fluctuated significantly over time. In FY 2007, the HPTF received a boost in resources as the DC Council adopted legislation that increased the deed recordation and transfer tax rate, resulting in increased funding for the program.<sup>6</sup> But as real estate activity dwindled during the recession, dedicated tax funding to the HPTF fell by over 70 percent from FY 2007 to FY 2012, from \$70 million to \$20 million.

Higher funding levels in recent years have been achieved with one-time transfers to the Trust Fund from the District’s general revenues. (See **Figure 2**).

Mayor Bowser, who introduced legislation while on the DC Council to fund the Trust Fund at \$100 million each year, provided that level of funding in both her FY 2016 and FY 2017 budget proposals, and has committed to sustaining the Trust Fund at \$100 million each budget year. This level of funding is expected to create or preserve about 1,000 affordable homes per year.<sup>7</sup>

<sup>2</sup> DC Code § 42-2801; US Department of Housing and Urban Development, [Program Income Limits, 2016](#).

<sup>3</sup> Housing Production Trust Fund Annual Reports through FY 2012; DHCD [FY 2017 Performance Oversight Documents](#).

<sup>4</sup> [Announcement of Selected Projects](#), Jan. 2016.

<sup>5</sup> A14-0267, [Housing Act of 2002](#).

<sup>6</sup> A16-0476, [Fiscal Year 2007 Budget Support Act](#).

<sup>7</sup> Department of Housing and Community Development [FY 2016 Budget Oversight Documents](#).

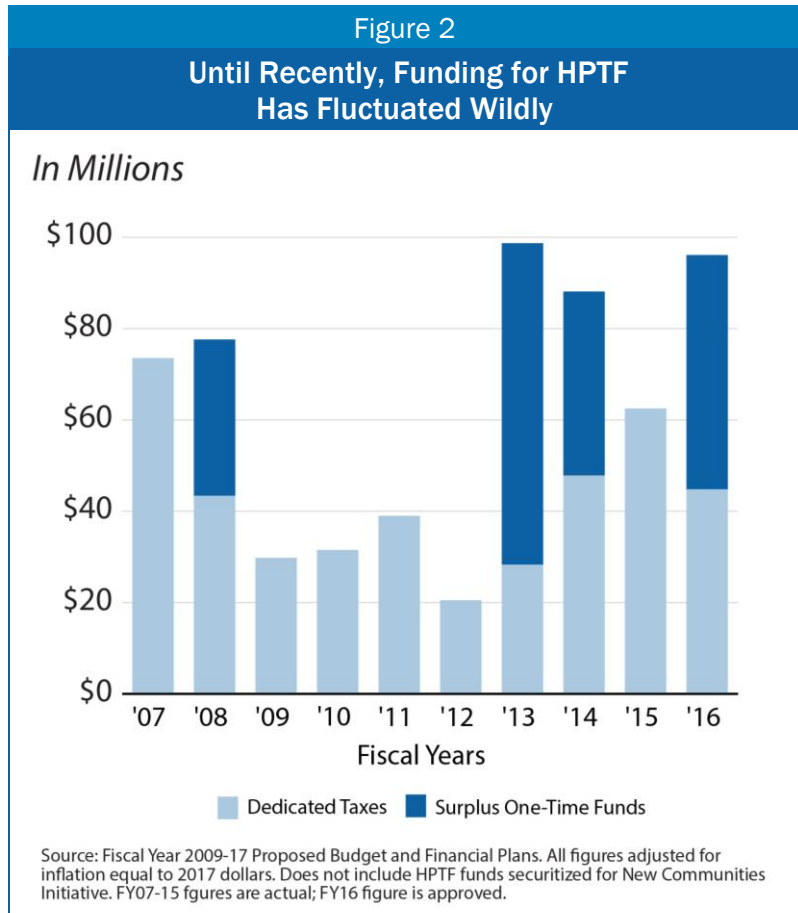
While one-time transfers to the HPTF provide sorely needed funds for affordable housing projects, that approach does not guarantee long-term fund stability. Without a permanent change in its funding approach, there is a risk that the Trust Fund’s support could once again fluctuate as it has in the last decade. This is problematic, because large unexpected drops in funding can lead the HPTF to become oversubscribed, meaning that it has more commitments for funding than it has dollars. 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. Improving the reliability of the funding, in good economic times as well as bad, would contribute to a steadier stream of affordable housing. DC could accomplish this by:

- Establishing an appropriation from the District’s general fund each year, as most DC agencies are funded. The funding for the HPTF would be part of the budget’s baseline, rather than tied to a volatile tax source and dependent on one-time transfers from general revenue to fill gaps.
- Funding the HPTF with a set amount of deed transfer and recordation taxes, rather than relying on a percentage of these taxes. This would ensure stable funding year to year.

### More Spending Needed on Housing for Extremely Low Income Residents

In some recent years, the Housing Production Trust Fund has fallen short of meeting the requirement that at least 40 percent of its dollars go to housing for families earning below \$32,600 for a family of four (30 percent of the area median). It is important that the Trust Fund meet this target, because residents at this income level — who meet the US Department of Housing and Urban Development’s definition of “extremely low income” — are those most likely to struggle to pay the rent. Nearly two-thirds of extremely low income renters in DC spend the majority of their

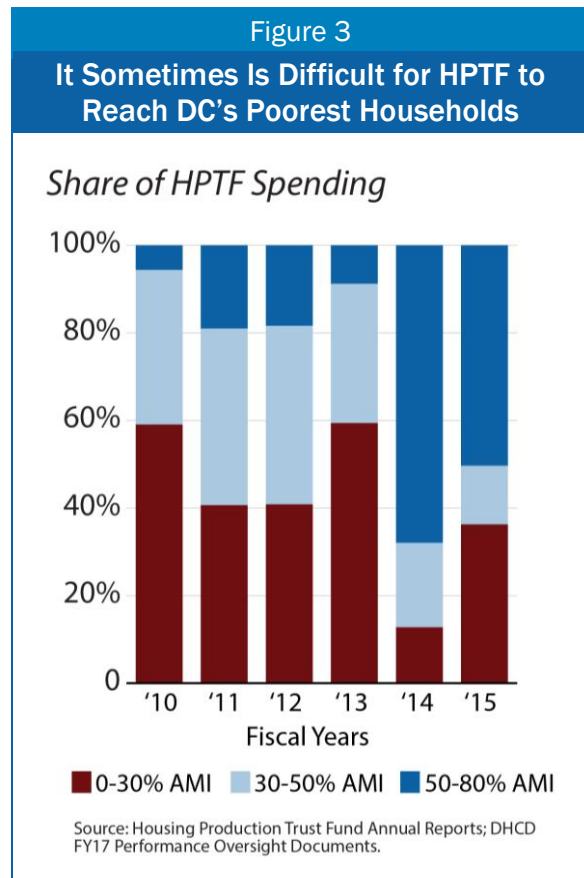


income on rent,<sup>8</sup> leaving even less left over to pay for necessities like food, clothing, and transportation.

In FY 2014, just 13 percent of Trust Fund dollars helped create or preserve affordable homes for extremely income households — far below the required 40 percent. (See **Figure 3**).<sup>9</sup> The target was missed again by a narrower margin in FY 2015. While the HPTF seems on track to meet the 40 percent target in FY 2016,<sup>10</sup> the District should take steps to ensure the Trust Fund succeeds in the future.

This challenge reflects the fact that the Trust Fund provides one-time, up-front assistance to build or renovate homes, but it does not help cover ongoing operating and maintenance costs. Thus the Trust Fund alone often is not able to reduce rents to be affordable to the lowest income families.

One approach to addressing this problem that the District has adopted in recent years is to pair rent subsidies from DC’s [Local Rent Supplement Program](#) with projects developed under the Trust Fund. Ongoing rental subsidies from LRSP help cover ongoing operating costs, so that tenant rents can be kept low. Expanding LRSP subsidies tied to specific projects and developers of low-cost housing will help the Trust Fund assist more extremely low income families, and help the District maximize its investment in the HPTF.



<sup>8</sup> DC Fiscal Policy Institute analysis of 2014 American Community Survey.

<sup>9</sup> DHCD [FY 2017 Performance Oversight Documents](#).

<sup>10</sup> [Announcement of Selected Projects](#), Jan. 2016; DHCD [FY 2017 Performance Oversight Documents](#).