

April 2008

What's in the FY 2009 Budget for Affordable Housing?

Summary of Mayor's Proposed Budget: The proposed affordable housing budget for FY 2009 totals \$146¹ million from a variety of sources. It includes some new initiatives, including a \$19 million "housing first" program for homeless residents. At the same time, funds for the city's Housing Production Trust Fund would decline precipitously because of falling collections in DC's deed taxes that are the source of the Trust Fund's funding.

As a result of these conflicting trends, total proposed funding for housing in FY 2009 budget is lower than in 2008. (This partly reflects roughly \$40 million in supplemental housing funding that was added to the approved 2008 budget.) At the same time, housing funding is higher than in 2007 and far higher than in 2006, an indication that the District is making progress toward the goals of the 2006 report by Comprehensive Housing Strategy Task Force.

Summary of Council Mark-Up: The committee on Housing and Urban Affairs (HUA) met on April 29th to consider the FY 2009 budgets for the Department of Housing and Community Development and the DC Housing Authority. While no new funding for affordable housing was found during the HUA committee mark-up, several recommendations were added to each agencies budget submission. Notably, some recommendations are efforts to find more money for affordable housing in the final Council vote on the budget on May 13th.

The full DC Council will vote on the DC budget, including the LIHEAP funding level, will be held on May 13, 2008, at 10:00 a.m.

Analysis of the Housing Budget

The District provides affordable housing through a wide range of programs, including construction support to non-profit and for-profit developers to build new affordable housing, assistance to tenants to help them purchase their buildings, down payment assistance to low-income first-time homebuyers, and vouchers to subsidize rents for very low-income residents.

¹Mayor Fenty also proposed offering some DC-owned land for the development of affordable housing. When the value of that land is considered, total resources for affordable housing in FY 2009 will be higher than indicated in this analysis. The list of properties that will be contributed has not yet been released.

SUMMARY

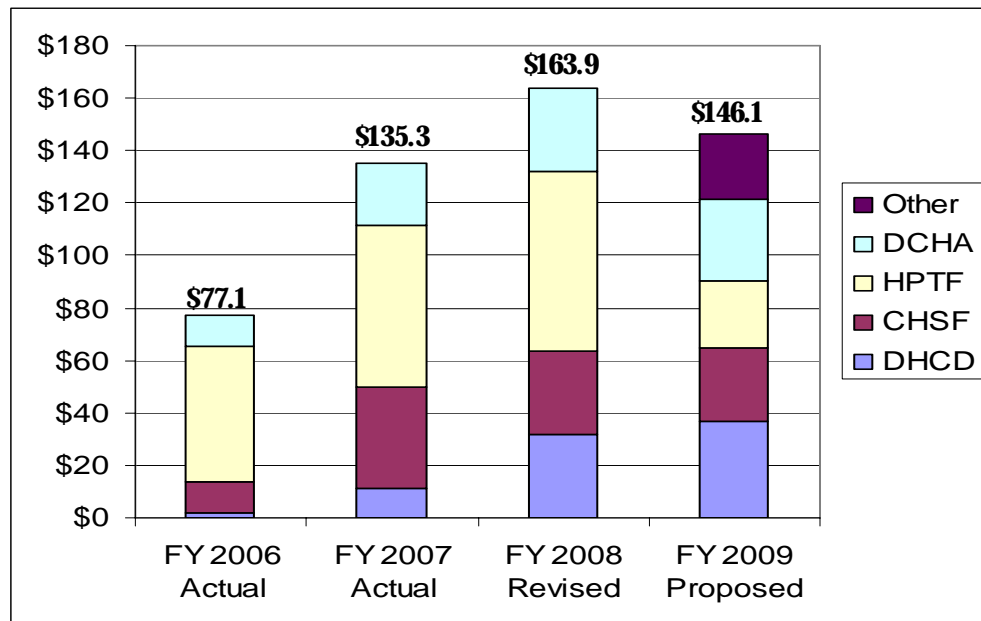
MAYOR'S BUDGET PROPOSAL

- The proposed FY 2009 budget includes new funding initiatives, but they are offset by a sharp drop in funding for the Housing Production Trust Fund, due to declining deed tax collections. Total FY 2009 resources for affordable housing are less than in the previous year.
- Nonetheless, the FY 2009 housing resources are far higher than in FY 2006, reflecting progress toward the recommendations of the 2006 Comprehensive Housing Strategy Task Force.

COUNCIL MARK-UP, APRIL 29

- The Committee did not identify any new housing funding, but it urged the full DC Council to find more resources for Local Rent Supplement in the final budget that will be adopted on May 13th.

Local Funding for Affordable Housing, FY 2006-FY 2009*



* in millions; all figures are adjusted for inflation to equal FY 2009 dollars

This analysis highlights the four major sources for affordable housing from local District: the Department of Housing and Community Development (DHCD), DC Housing Authority Subsidy (DCHA), the Housing Production Trust Fund (HPTF), and the Comprehensive Housing Strategy Task Force Fund (CHSF, abolished in FY 2009).

The Department of Housing and Community Development

Mayor's Budget Proposal DHCD focuses on the financing, production, and preservation of affordable housing and homeownership in the District. Its proposed general fund budget for FY 2009 is \$36.7 million, up from \$31.6 million in FY 2008.

The largest single program in DHCD is the Home Purchase Assistance Program, which provides low- and no-interest loans to help low-income first-time homebuyers. HPAP funding was expanded substantially in FY 2008, which supported an increase in the number of families served and in the size of the average HPAP loan amount. This increase was supported by using accumulated repayments of prior HPAP loans (When HPAP homebuyers later sell their home, the HPAP loan is repaid to the District.) Those funds now appear to be largely depleted. For FY 2009, the Mayor's budget proposes a new appropriation of \$19 million to maintain the HPAP program at roughly the FY 2008 level. The program is expected to help 500 new homebuyers in 2009, about the same as in 2008 but higher than the 278 households served in 2006.

DHCD's proposed FY 2009 budget also includes a \$10 million allocation to finance 37-72 units of affordable housing through a re-newed Land Acquisition for Housing Development Opportunities Program (LAHDO).

Finally, it should be noted that while local funding for DHCD would increase in 2009, available federal funding is expected to be reduced by more than \$35 million. This reduction is mainly

attributed to less carryover and program income from prior year Community Development Block Grant and Home Investment Partnership Program funds. As a result, the gross budget for DHCD in FY 2009 will be nearly one-fourth lower than in FY 2008.

Council Mark-up: The Housing and Urban Affairs Committee made no changes to the Mayor's proposed FY 2009 operating budget for DHCD. The Committee recommended that DHCD continue to move forward in the implementation of the recommendations of the DHCD Reform Advisory Commission and the Comprehensive Housing Strategy Task Force Report. The Committee also encouraged DHCD to focus on streamlining the underwriting process and to develop standard loan products that could help expedite the approval process for affordable housing developments.

The DC Housing Authority local subsidy

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 and to support a new Local Rent Supplement Program, following a recommendation of the city's 2006 housing task force for 15,000 new rent subsidies over 15 years.

Mayor's Proposed Budget: The proposed DC Housing Authority subsidy for FY 2009 is \$31 million, the same as in FY 2008. The failure to provide even an adjustment for inflation, which the subsidy had received in FY 2008, may mean that the program may not be able to maintain the number of subsidized units supported in FY 2008. As discussed more below, flat funding for the Local Rent Supplement Program also could affect the effectiveness of other housing programs. This is because rent subsidies often are paired with programs that support the production of affordable housing — such as the Housing Production Trust Fund — to make the housing affordable to DC's lowest income households.

Council Mark-Up: The Housing and Urban Affairs Committee made no changes to DCHA's budget from the Mayor's proposal.

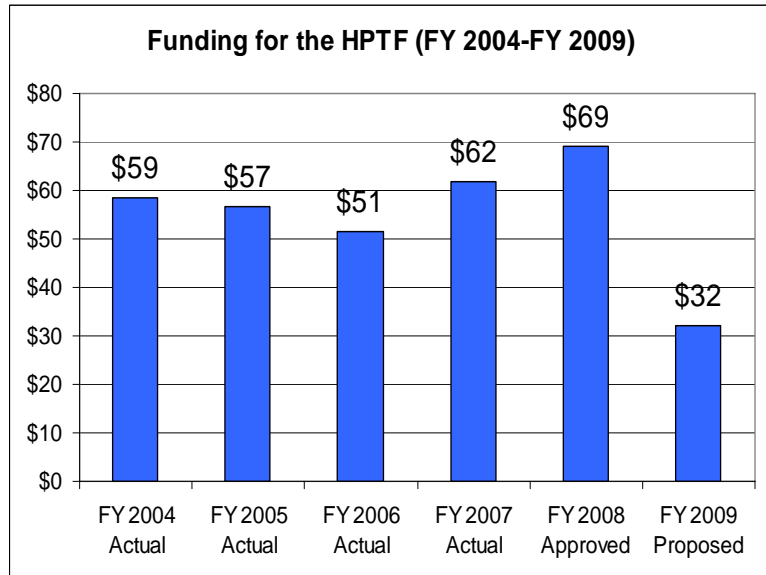
The committee noted that this funding level will mean that no new affordable housing units will be able to be funded through DCHA in FY 2009. In light of this, the committee recommended that language be added to the FY 2009 Budget Support Act of 2008 to set aside \$33 million of any increase in future revenue projections from the CFO, with \$30 million for Local Rent Supplement, \$2 million for public safety activities **in public housing?**, and \$1 million for exterior maintenance and beautification at public housing sites. During the mark-up, Councilmember Graham (Ward 1) proposed capping administration costs of the rent supplement programs at three percent, with savings used to serve more households. Chairman Barry (Ward 8) recommended that the Committee would examine this issue prior to the full Council vote on the budget on May 13.

The Housing Production Trust Fund

The Housing Production Trust Fund 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.

Mayor's Proposed Budget: When deed taxes were raised in 2007, funding for the Housing Production Trust Fund was expected to reach \$76 million in FY 2009. DC's real estate market cooled substantially starting in 2008, however, and this resulted in a sharp decline in support for HPTF. It is now expected that support for the Trust Fun in FY 2009 will be just \$32 million. This is far less than the \$62 million in dedicated deed taxes in 2007 and \$39 million expected in 2008. (Total HPTF funding in 2008 will be \$69 million because the Council provided a \$30 million supplemental appropriation to address the decline in deed taxes.) The FY 2009 funding level would be the lowest since 2003.



* in millions, all figures adjusted for inflation to equal FY2009 dollars.

Council Mark-Up: The Committee made no changes to the HPTF budget.

The Comprehensive Housing Strategy Task Force Fund

This fund was created in FY 2007 to implement some of the recommendations of the Comprehensive Housing Strategy Task Force. Because funding for CHSF was tied to deed taxes, like the Housing Production Trust Fund, funding has declined substantially in recent years.

Mayor's Proposed Budget: The Mayor's proposed FY 2009 budget would abolish this fund and instead fund the component programs with direct appropriations, which would make funding for these programs more stable. Proposed funding in FY 2009 is \$28 million, the same as in FY 2008, including \$19 million to the Department of Human Services to support homeless services and emergency rental assistance (ERAP), \$4 million for energy assistance (LIHEAP) under the District Department of the Environment; and \$5.5 million for the Housing Bridge Subsidy Program under the Department of Mental Health.

Council Mark-Up: The Committee made no changes to the Mayor's proposed budget.

Other Housing Initiatives in the FY 2009 Budget

In addition to the major programs outlined above, the proposed FY 2009 budget also includes several other notable initiatives:

- \$19.2 million is allocated for a Housing First fund to create supportive housing and human

services for 150 homeless families and 650 homeless individuals;

- \$4 million to enhance social services at New Communities sites; and
- \$1.5 million to create 95 beds to house victims of domestic violence.

Other Issues to Track in the FY 2009 Budget for Affordable Housing

Declining funds for the production of affordable housing: While overall funding for affordable housing in FY 2009 represents a substantial increase since FY 2006, the sharp decline in funding for the Housing Production Trust Fund raises concerns because it is the primary source of support for affordable housing construction and rehabilitation. Both the affordable units produced and, accordingly, the expenditures from the HPTF have increased sharply since FY 2005.² This has led to the production of thousands of affordable units since FY 2001.

Moreover, the current demands on the HPTF, coupled with the increased uses for it, outweighed the available resources even prior to the recent decline in HPTF funding.³ With the HPTF already oversubscribed and revenues for the fund continuing to dwindle, the HPTF will need a boost in resources in FY 2009 in order to achieve the same level of success it has had in producing affordable housing in recent years. Without additional support, the District may not be able to support all projects that have received preliminary HPTF awards.

Finally, the DC Council has authorized securitization of up to \$16 million from the HPTF to back bonds that would support New Communities projects. If fully utilized, the securitized funding would account for nearly two-thirds of the HPTF's resources in FY 2009. The current expectation is that only \$6 million will be securitized as of FY 2009, yet even this represents one quarter of the Trust Fund's new resources. The declining funding for the Housing Production Trust Fund either will limit how much it can be used to support New Communities projects, or it will require a very large share of the Trust Fund be used for New Communities, greatly limiting other important uses.

Frozen Funding for Local Rent Supplement Will Limit the Ability to Provide Housing for DC's Lowest Income Households: As noted, the proposed DC Housing Authority subsidy for FY 2009 is set at the FY 2008 level --lacking even an increase for inflation. This means that the program may not be able to maintain the same number of fully funded vouchers for FY 2009. In addition, these vouchers often are coupled with housing production subsidies, such as HPTF, in order to make housing affordable to very low-income residents. Without rent subsidies, housing supported by the HPTF typically is affordable to more moderate-income families, such as those earning 50 percent of Area Median Income (\$45,000 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.

The Proposed Unified Housing Fund Raises Concerns: The proposed budget for FY 2009 would create a new "Unified Housing Fund" that could be used by DHCD to fund a very broad

² Rogers and DeLorenzo, "The District's Housing Production Trust Fund has Developed Thousands of Affordable Units Since FY 2001," DCFPI and CNHED, April 20, 2007, available at: [<http://www.dcfpi.org>]

³ *ibid*

and loosely defined range of activities linked to affordable housing. The fund would collect revenues from a variety of sources, including repayments of HPAP loans. While this fund may serve an important purpose in consolidating a number of smaller housing funds, concerns have been raised over the lack of transparency such a fund would create. Under the budget proposal, DHCD would have broad discretion over the use of Unified funds, and there would be no requirement to use the funds as they are being used now, such as supporting additional HPAP loans. A better approach may be to require funds from the Unified Housing to be appropriated each year, so that the Council and public would have more input on the use of these funds.

Council Mark-Up Update: The Housing and Urban Affairs Committee made changes to the proposed Unified Fund, by removing the Home Purchase Assistance Program loan repayments as one of its sources of revenue. Instead, HPAP repayments would continue to be used to support new HPAP loans. Beyond this, no changes were made to the overall uses of the fund which remain broad and loosely defined.