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**TESTIMONY OF JENNY REED, POLICY ANALYST
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**At the Public Hearing on the
Fiscal Year 2010 Budget Oversight Hearing
for the Department of Housing and Community Development
District of Columbia Committee on Housing and Workforce Development
April 8, 2009**

Chairman Barry and members of the Committee, thank you for the opportunity to speak today. My name is Jenny Reed, and I am a Policy Analyst with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

I am here today to testify on the need for a boost in local funding for affordable housing. As a result of the failing economy and a decline in resources for affordable housing programs, both local and gross funding for affordable housing are at their lowest levels since FY 2007 (see figure 1).¹ In addition, most of the core programs for affordable housing have seen flat funding or a decline in FY 2010.

Some affordable housing programs will receive stimulus funding in FY 2010 but the majority of this funding can't be used for new affordable housing construction or rehabilitation. The stimulus funds that can be used for construction — the \$8.8 million coming to DHCD for tax credit assistance — is really intended to help address a weakened tax credit market and isn't really supporting more housing than it would if the credit were functioning normally. In addition some critical housing programs — like HPAP — are being funded with stimulus money, which is a good use in the difficult budget times, but it is unsustainable going forward. Because of the declining funds for affordable housing and the short-term uses of stimulus funding, we need to begin thinking of a plan for how we will fund affordable housing programs going forward.

Today, I'd like to briefly highlight three areas of concern with declining funds for affordable housing within DHCD. Attached to my testimony is DCFPI's analysis of the FY 2010 budget for affordable housing which goes into greater detail in all of these areas, and others.

Reduced funding for the Home Purchase Assistance Program is limiting its effectiveness. In FY 2010, HPAP will receive \$18.5 million, the lowest funding level since

¹ Gross funding includes gross funds for the Department of Housing and Community Development.

FY 2006 (see figure 2).² This represents a significant reduction in support for HPAP, and as a result, in FY 2009 the maximum HPAP loan amount has been reduced from \$70,000 to \$40,000. Since home prices have not fallen proportionately, the lowered assistance amount means that many low-income homebuyers may have a much harder time affording, or being qualified to purchase, homes in the District.

Funding for the Housing Production Trust Fund is plummeting. The Trust Fund has seen a sharp decline in support from the substantial slow down in DC's real estate market and is now expected to receive just \$18 million in FY 2010 and will be at its level since 2003 (see figure 3).

As the primary source of support for affordable housing construction and rehabilitation in the District, the decline in funding is concerning. The Trust Fund has produced thousands of affordable units in recent years but now, as a result of the dramatic drop in resources and oversubscription, the HPTF's ability to produce affordable housing is limited.³ Without additional support, the District may not be able to support all projects that have received preliminary HPTF awards or support the growing backlog of projects needing funding.

Moreover, in FY 2010 it's expected that nearly one-third of the Trust Funds new resources — \$6 million — would be used to support New Communities and leaves just \$12 million for core Trust Fund Purposes. The declining funding for the Trust Fund either will limit how much it can be used to support New Communities projects or it will greatly limit other important uses. Moreover, the increased administrative allocation in FY 2010 — from 5 percent to 20 percent of the fund — greatly limits its ability for other important uses. While this may be necessary because of the decline in total funding, 20 percent is high and we urge the Council to work with DHCD to see if that figure can be reduced.

Because the volatility of deed taxes makes them an unstable way to fund the Trust Fund, the DC Council adopted legislation last fall expressing the goal of setting a \$70 million funding floor for the Trust Fund in FY 2010 and an \$80 million funding floor in future years. However, the FY 2010 budget does not include funding to meet this goal.

There is limited funding for new affordable housing financing. Total gross funding for the Affordable Housing program within DHCD is proposed to be \$43 million in FY 2010. This includes \$9 million in stimulus funds intended to level-fund eligible projects that were already awarded credits, but have been stalled in the weakened tax credit market.⁴ Without the stimulus funds, the total amount budgeted for affordable housing development in FY 2010 — \$34 million — is about the same as the amount spent in FY 2007.⁵

² 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.

³ Lazere and Pohlman, "Affordable Housing in the District Depends on a Stable Housing Production Trust Fund," DCFPI and CNHED, October 20, 2008, available at: <http://dcfpi.org/?p=238>

⁴ The stimulus funds are intended to address the fact that cities and states have not been able to use another financing mechanism — low-income housing tax credits (LIHTC) — due a weakened market for these credits. Only projects that were already awarded credits in FY 2007, FY 2008 or FY 2009 are eligible.

⁵ The \$34.2 million removes the \$8.8 million for the tax credit program, after adjusting for inflation the total amount spent on affordable housing in FY 2007 was approximately \$33 million.

Combined with the dramatic drop in resources for the Trust Fund and the weakened market, much of the funding coming to DHCD for affordable housing financing will be used to get moving on projects that have been in the pipeline. This means that in FY 2010, there is very little new funding available for the financing of affordable housing projects including new tenant purchases.

Taken together, the decline in resources for affordable housing, the weakened economy, and short-term availability of stimulus funds leaves affordable housing programs severely underfunded going forward. Affordable housing will need a boost in local funding in order to be able meet the affordable housing needs of DC’s low- and moderate-income residents in the future.

Thank you for the opportunity to offer testimony. I am happy to answer any questions.

Figures 1-3

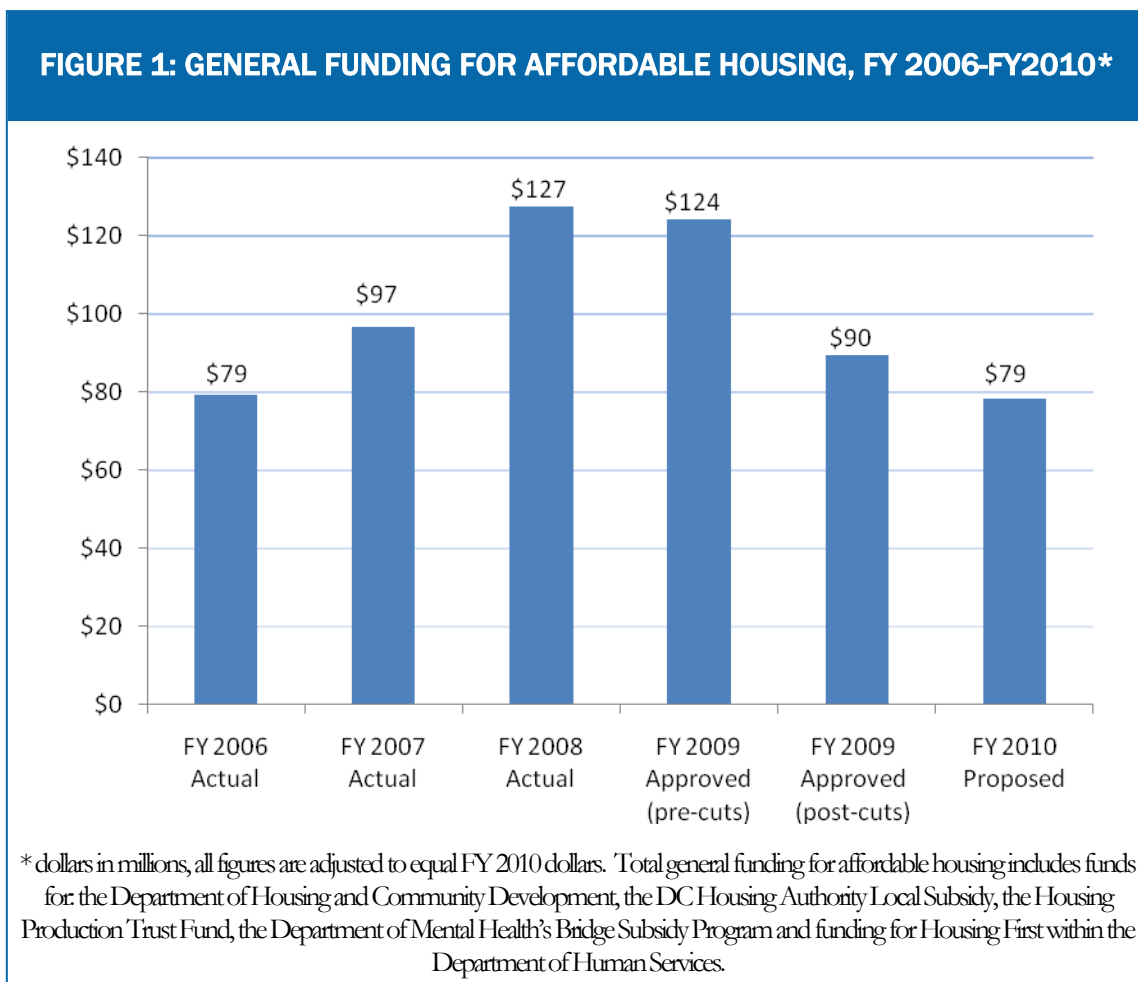
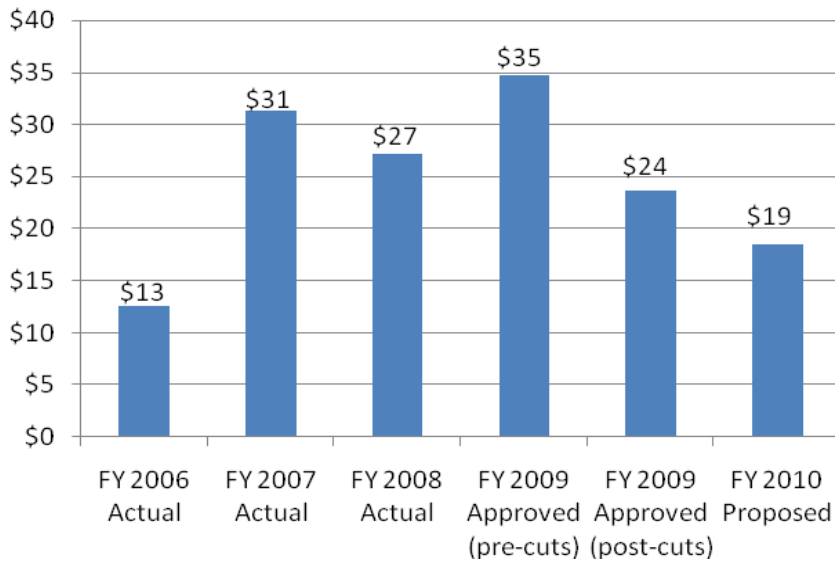
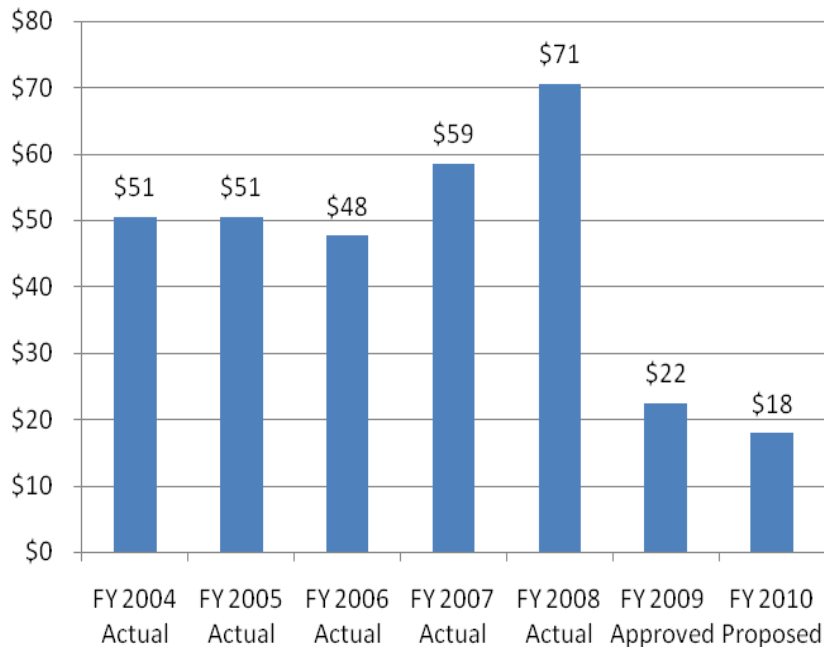


FIGURE 2: GROSS FUNDING FOR THE HOME PURCHASE ASSISTANCE PROGRAM, FY 2006-FY 2010*



*dollars in millions; all figures are adjusted to equal FY 2010 dollars. Total funding for HPAP 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.

FIGURE 3: FUNDING FOR THE HOUSING PRODUCTION TRUST FUND, FY 2003-FY2010*



* dollars in millions; all figures are adjusted for inflation to be in FY 2010 dollars.