



Fiscal Policy Institute

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**TESTIMONY OF JENNY REED, POLICY ANALYST
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**For the Public Hearing on
Bill 18-42, the “Tenant Protection Act of 2009” & Bill 18-92, the “Omnibus Rental
Housing Amendment Act of 2009”
District of Columbia Committee on Public Services and Community Affairs
June 4, 2009**

Chairwoman Bowser 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.

DCFPI supports the Tenant Protection Act and the Omnibus Rental Housing Amendment Act. The provisions in both bills— all aimed at ensuring DC residents are able to live in properties that comply with the D.C. housing and building codes — will help keep some of DC’s most vulnerable residents safe and healthy while simultaneously helping to preserve DC’s affordable housing.

Today, I’d like to focus my testimony on two points. First, the importance of requiring proactive rental inspections to help preserve affordable housing — something the District is rapidly losing. Second, the importance of making the special purpose funds used to address housing violations, transparent.

Proactive rental inspections can help the District stop the loss of its affordable housing stock by catching violations before they become too costly or irreparable and tenants get displaced. In addition, such an inspection system can prevent owners from using decrepit housing as a mechanism for conversion to owner-occupied units.

The preservation of affordable housing in the District is critical since it is not only less expensive than the construction of new affordable units, but also because the District is losing affordable housing units at a startling rate. In fact, since 2000 the District has lost more than one-third of its low-cost units while at the same time it has more than doubled its total number of high-cost units.¹

This loss of low-cost units and the increase in high-cost units is alarming as nearly 40 percent of DC households have unaffordable housing costs, and 20 percent pay half or more of their

¹ Low-cost units are defined as no more than \$750 a month for rent and utilities and are affordable to those with incomes of \$30,000 or less. Affordable is defined as having housing costs that are no more than 30 percent of your total income. High cost units are those that cost \$1,500 a month or more for rent and utilities.

income for housing.² Low-income households are the most likely to suffer from housing affordability problems. Preserving affordable units can help to stabilize communities and prevent the rapid gentrification of neighborhoods.

In addition, requiring proactive inspections of all rental units in the District can help keep properties safe and healthy for DC's residents. The current system of relying on tenants to report violations is not effective since tenants may not be fully aware of their rights, afraid to report violations, or not trained to recognize certain violations. On the other hand, proactive inspections can not only help prevent buildings from falling into severe disrepair, but also would encourage owners to be pro-active in their repairs.³

It is laudable that DCRA is currently conducting a pilot program of proactive inspections in the District and we hope that this legislation will ensure it progresses to a fully operational program District-wide. Proactive inspection programs have been established in both Los Angeles and New Jersey have been very successful. In fact, since 1998 Los Angeles has issued over 1.5 million citations resulting in nearly \$1.4 billion of investment back into the Los Angeles economy.

The proposed legislation would also create a new special purpose fund to fund the proactive inspections and set priorities for the use of DCRA's Nuisance Abatement Fund — another special purpose fund — which is used to make repairs of code violations. Special purpose funds can be a good use in this instance because they help give fees charged for certain purposes legitimacy and because they also can remain separate from the general fund and used solely for their intended purposes.

However, a major issue that needs to be addressed with special purpose funds is their lack of transparency in DC's budget. The budget fails to identify each special purpose fund, its source of revenue, allowable uses, or expected fund balance. This lack of information makes it difficult to determine if the funds are being spent and if they are being spent properly. In fact, a recent report on DCRA's nuisance abatement fund in the *Washington Post* found that the fund had been under-utilized, some funds had been diverted to other programs, and that the uses of the funds often were not consistent with its purposes.⁴ The limited and unclear information makes it difficult to hold DCRA accountable for the use of this important fund.

In order to ensure transparency and accountability, DCFPI suggests that all special purpose funds — including the proposed inspection fund — be reported with a greater level of detail in the DC budget. This would include a narrative description of the fund, a listing of the sources and amounts of revenues that go into the fund, and information on how the fund is spent. This would allow us to identify the extent to which the fund is being used and whether the fee is raising an adequate amount (or too much). I have attached more detail and examples of potential ways to display this information from other states and the District's Highway Trust Fund.

² Affordable is defined as having housing costs that are no more than 30 percent of your total income.

³ Centers for Disease Control—Lead Poisoning Prevention Branch, "Conduct Periodic Housing Code Inspections," available at: <http://www.afhh.org/buildingblocks/docs/3.pdf>

⁴ Debbie Cenziper and Sarah Cohen, "Fund Gives Tenants Little Relief," *Washington Post*, Sunday, May 4, 2008; pg. A01.

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

Appendix A: New Table Formats Could Help DC Provide a More Transparent Picture of Special Funds

Special purpose funds, often referred to as “O-type” funds, are financed by fees, fines, assessments, or reimbursements, and the use of these funds is restricted to certain specified purposes. Special purpose funds are often non-lapsing funds, meaning that they carry over from one fiscal year to the next. The FY 2010 proposed budget has 230 proposed special purpose funds with expected revenues of \$460 million in FY 2010.

The reporting on special purpose funds lacks information, however, that can make them transparent. The budget does not reflect the expected balance of each special purpose fund, for example, at the beginning of the fiscal year or the expected year-end balance. The revenue chapter of the DC budget has one table (Table 4-41) that lists each special purpose fund, but it does not include all of this information. In addition, there is no narrative in the budget to explain the kinds of funds that are dedicated to each special purpose account or the allowable use of the funds in each special purpose account.

Lastly, the budget does not connect each special purpose fund to the budget line items within an agency. For example, the FY 2010 budget for the Department of Health notes that it includes \$13.8 million in special purpose funds for the agency as whole. It identifies the amount of special purpose funds that will be spent on each of the agency’s programs and activities, but without identifying which specific special purpose accounts will support specific programs or activities. Because DOH has 18 different special purpose accounts, there is no way to identify which special purpose fund is being used in a particular activity.

A transparent budget would explain the function of each special purpose fund and it would include tables that show the following information: current balance of these funds, expected new revenues into these accounts in the upcoming fiscal year, expected spending from that account, and the expected year-end balance.

Two examples from other states show how the District could improve its reporting of special funds. The Arizona budget provides a description of each special fund, beginning balance, revenues, and uses for the fund for each fiscal year (see Table 1). This allows the user to more easily determine the final fund balance and provides a more accurate accounting of funds.

The District’s Highway Trust Fund provides another example. The budget for the trust fund includes a table that shows the beginning balance, interest earnings, sources of revenue (including dedicated taxes), and the expected uses of the fund (see Table 2). This information is provided for prior and future fiscal years. The table does not, however, include a thorough narrative to help readers understand the contents.

TABLE 1: ARIZONA'S BUDGET HAS A USEFUL MODEL FOR REPORTING ON SPECIAL FUNDS

Fund Number 2235

Housing Trust Fund

Under A.R.S. 41-3955, the fund receives 55% of the state's unclaimed property revenue, which is administered by the Department of Revenue. The fund is primarily used to conduct various programs such as housing maintenance, eviction prevention, and growth initiatives. Less than 2% of the fund is appropriated and this amount is for the purposes of administering the programs within the Housing Trust Fund.

		FY 2007	FY 2008	FY 2009
Sources				
Beginning Balance		47,787.1	66,026.8	65,998.2
Revenues		43,846.5	45,161.9	46,516.7
	Sources Total	91,633.6	111,188.7	112,514.9
Uses				
	Department			
Operating Expenditures	Arizona Department of Housing	703.8	7,397.3	909.3
Non-Appropriated Expenditures	Arizona Department of Housing	24,903.0	37,793.2	48,595.7
	Uses Total	25,606.8	45,190.5	49,505.0
	Housing Trust Fund Total	66,026.8	65,998.2	63,009.9

Source: The Executive Budget, FY 2009 (Arizona), p. 334

TABLE 2: THE DISTRICT'S LEVEL OF DETAIL REPORTED ON THE HIGHWAY TRUST FUND CASH PROSPECTIVE SHOULD BE REPORTED FOR ALL SPECIAL FUNDS

	D.C. Transpo. Trust Fund FY 2007 (actuals)	Federal Aid FY 2007 (actuals)	TOTAL FY 2007 (actuals)	D.C. Transpo. Trust Fund FY 2008 (actuals)	Federal Aid FY 2008 (actuals)	TOTAL FY 2008 (actuals)
Sources						
Beginning Balance	\$7,200,628	\$415,688,908	\$422,889,536	\$18,218,820	\$436,302,811	\$454,521,631
Interest Earnings	857,776	0	857,776	332,226	0	332,226
Dedicated Revenues-						
-Motor Fuel Tax	26,775,985	0	26,775,985	26,938,000	0	26,938
-Parking & Storage	7,087,447	0	7,087,477	8,014,000	0	8,014,000
-Incremental Vault Fees	6,854,434	0	6,854,434	3,656,120	0	3,656,120
-Right of Way Rental Fees	6,701,064	0	6,701,064	6,701,000	0	6,701,000
Misc. Reimbursements	14,411	0	14,411	960,000	0	960,000
Operating Fund Surplus	7,149,486	0	7,149,486	846,040	0	946,040
Federal Aid Apportionments		150,001,372	150,001,372		147,734,091	147,734,091
Total	\$62,641,231	\$565,690,280	\$628,311,511	\$65,666,206	\$584,036,902	\$649,703,108
Uses						
Project Management	2,638,516	13,585,684	16,224,200	4,582,047	20,328,878	24,910,925
Non-Participating Cost	20,774,595	0	20,744,595	14,680,497	0	14,680,497
Design, Site, Constr. & Equip. Cost	21,009,300	115,801,785	136,811,085	31,110,371	138,980,311	170,090,682
Total	\$44,422,411	\$129,387,469	\$173,809,880	\$50,372,915	\$159,309,189	\$209,682,104
ENDING BALANCE	\$18,218,820	\$436,302,811	\$454,521,631	\$15,293,291	\$424,727,713	\$440,021,004

Source: Government of the District of Columbia FY 2009 Proposed Budget and Financial Plan, Special Studies: Highway Trust Fund, March 2008.