

April 2009

What's in the Mayor's proposed FY 2010 Budget for Affordable Housing?

The proposed local funds budget for affordable housing for FY 2010 totals \$79 million from a variety of sources. This represents a 12 percent drop in local funds for affordable housing, after adjusting for inflation, and a drop of 38 percent from a peak in FY 2008. The decline in funding is primarily due to continued plummeting in funds for the Housing Production Trust Fund, because of falling collections in DC's deed taxes that are the source of the Trust Fund's funding. The funding decline is also a result of a reduced local contribution to the DC Housing Authority, which is expected to be offset by use of carryover funds from previous years.

Both the Department of Housing and Community Development (DHCD) and the DC Housing Authority (DCHA) will receive federal stimulus funds in FY 2010 for a variety of programs. The stimulus dollars for DCHA will provide support to make improvements to existing public housing in the District. DHCD will receive over \$20 million in stimulus funds, including \$9 million to boost a weakened tax credit market for affordable housing financing and \$6.5 million that the District will devote to its first-time homebuyer program.

As a result of this, gross funds (both local and federal funds) for affordable housing will be lower in FY 2010 than in FY 2009 — after the mid year budget cuts were made — and both local and gross support for affordable housing in the District will be at the lowest level since FY 2007.¹ In addition, since a majority of the new federal funds are stimulus dollars — and a majority of that funding may not be available in FY 2011 — it is unclear how much funding affordable housing in the District will have in FY 2011 and beyond. Particularly with the decline in the funding for the HPTF, one of the primary sources for affordable housing construction and renovation, affordable housing will need a boost in local dollars in the coming years in order to ensure that the affordable housing needs are met and the District doesn't further fall behind in creating affordable housing for low- and moderate-income individuals.

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,

SUMMARY

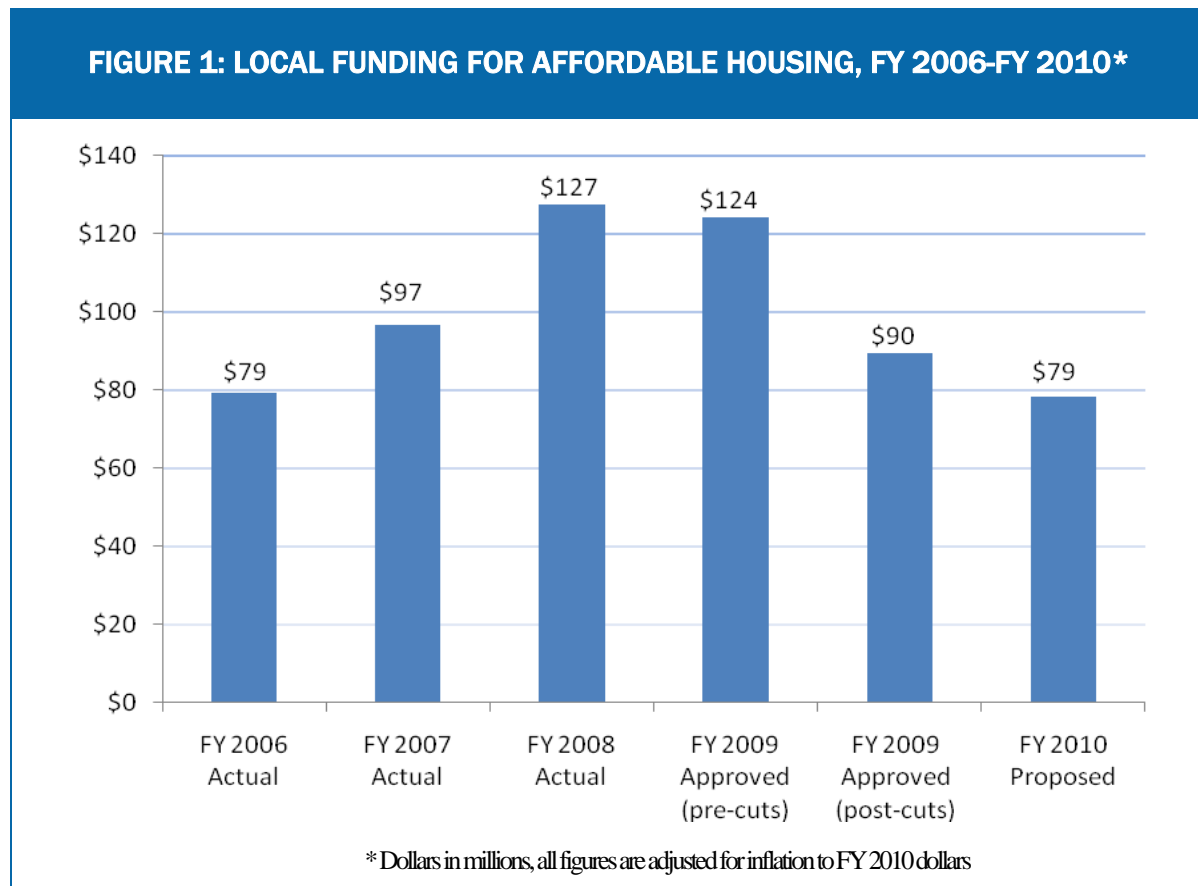
- The proposed FY 2010 budget shows a significant drop in local funding for affordable housing; largely from a continued decline in funding for the Housing Production Trust Fund due to falling deed tax collections. Total FY 2010 local and gross resources — which includes federal funding — for affordable housing are at their lowest since FY 2007.
- At the same time federal stimulus money to the DC Housing Authority and the Department of Housing and Community Development will help address some of the worsening affordable housing needs from the economic downturn.
- Without the majority of the stimulus funding in FY 2011 and beyond, the District is likely to see a large drop in affordable housing funding unless the District can provide a local boost in funding going forward.

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

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.

This analysis highlights the three major sources for affordable housing from local District funds: the Department of Housing and Community Development (DHCD), DC Housing Authority Subsidy (DCHA), the Housing Production Trust Fund (HPTF), and two smaller sources of funding for affordable housing found in the Department of Human Services (DHS) and the Department of Mental Health (DMH).

Figure 1 shows the change in total funding for affordable housing from these sources for FY 2006 – FY 2010. Figure 1 shows that funding for affordable housing increased from FY 2006 through FY 2008 and has been declining since. The large increase in FY 2008 is mainly attributed to a \$30 million allocation to the HPTF from the DC Council when they passed the FY 2008 supplemental budget. In FY 2009, nearly \$29 million was cut from affordable housing because of a mid-year budget shortfall.



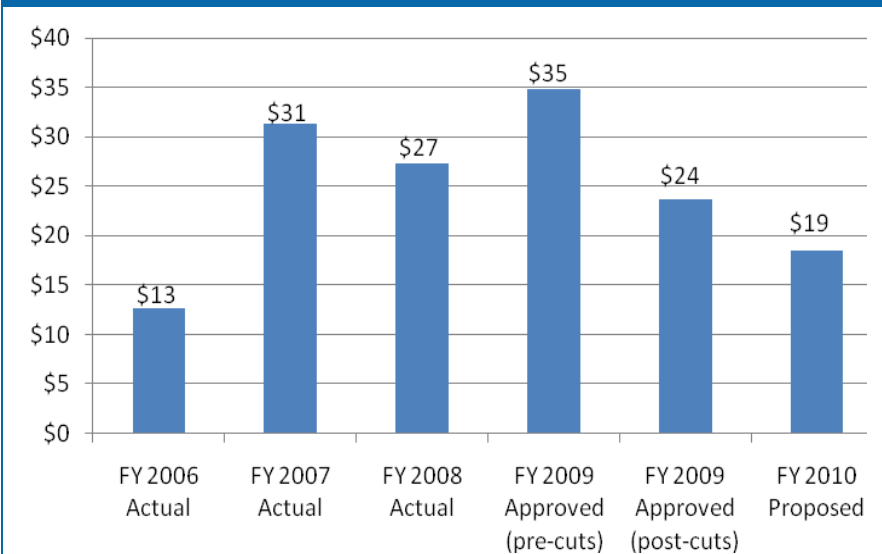
The Department of Housing and Community Development

DHCD focuses on the financing, production, and preservation of affordable housing and homeownership in the District. The proposed DHCD local budget for FY 2010 is \$17.9 million. This is a significant decline from the originally approved FY 2009 budget of \$38 million and about

the same as the revised FY 2009 budget of \$16 million. The FY 2009 budget for the Department of Housing and Community Development was cut by \$21 million in the fall of 2008 in response to a mid-year revenue shortfall. (The cuts included an \$11 million reduction in the Home Purchase Assistance Program and \$10 million from a Land Acquisition and Housing Development fund.)

One of the largest programs within DHCD are the home buying assistance programs, the largest of which is the Home Purchase Assistance Program (HPAP), which provides down-payment and closing cost assistance to help low-income first-time homebuyers.² In FY 2010, the home buying assistance programs will receive a total of \$19 million, of which HPAP is expected to receive \$17 million in gross funds. This is lower than the original FY 2009 budget of \$35 million and the \$24 million remaining for home purchase assistance in FY 2009 after the mid-year cut of \$11 million. The District will use \$6.5 million in federal stimulus funds for HPAP, but even with this, total funding for home purchase assistance programs in FY 2010 will be at their lowest since FY 2006.

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



*dollars in millions, all figures adjusted for inflation to equal FY 2010 dollars. The total gross funding for the Home Purchase Assistance Programs consists of federal funds, special purpose revenue and local appropriations. In addition funding is for the Home Purchase Assistance Program, the Employer Assisted Housing Program and the Police Officers special home purchase assistance program.

This represents a significant reduction in support for HPAP, which had received substantial funding increases in prior years. After FY 2006, funding for HPAP was expanded substantially. This expansion supported an increase in the number of families served, as well as an increase in the maximum HPAP loan — from \$30,000 to \$70,000 — which was needed to help homebuyers address rising home prices.

As a result of the reduction in funding, in FY 2009 the maximum HPAP loan amount has been reduced from \$70,000 to \$40,000 and

the maximum amount of assistance persons at each income threshold can receive has been reduced as well. Since home prices in the District have not fallen as dramatically as in other surrounding areas—or in proportion to the reduction in assistance—the lowered assistance amount means that many low-income homebuyers will have a much harder time affording, or being qualified to purchase, homes in the District.

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.

A second major function of DHCD is the financing of affordable housing projects, using a mixture of local and federal funds. The Affordable Housing program will receive \$6.4 million in local funds in FY 2010, compared with \$1.5 million in local funds in FY 2009. Total gross funding for this program is proposed to be \$43 million in FY 2010. This includes nearly \$10 million in stimulus funds, the large majority of which—\$8.8 million—will be devoted to backfill a weakened tax credit market for affordable housing construction and rehabilitation.³ This funding will help DHCD provide level funding for eligible projects that were awarded credits from 2007-2009, but have been stalled in the economic downturn.

Using stimulus funds for affordable housing financing and development is important. Yet, it should be noted that most of the stimulus funding is intended to help move projects that have been stuck in the pipeline due to the weakened market for tax credits. The majority of stimulus money will not be available in FY 2011 and beyond. Without the stimulus funds, the total amount budgeted for affordable housing development in FY 2010 — \$34.2 million — is about the same as the amount spent in FY 2007, after adjusting for inflation.⁴ Combined with the dramatic drop in resources for the Housing Production 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.

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.

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 HPTF in FY 2010 will be just \$18 million. This is far less than the \$62 million in deed taxes dedicated to the Trust Fund in FY 2007 and \$42 million dedicated in 2008. (Total HPTF funding in 2008 was \$72 million because the Council provided a \$30 million supplemental appropriation to address the decline in deed taxes.) In fact, the FY 2010 funding level would be the lowest since 2003.

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 expenditures from the HPTF have increased sharply since FY 2005.⁵ For example, expenditures from the Trust Fund totaled \$70 million in FY 2007, and the Trust fund has supported the production of 4,000 thousand affordable units since FY 2002.

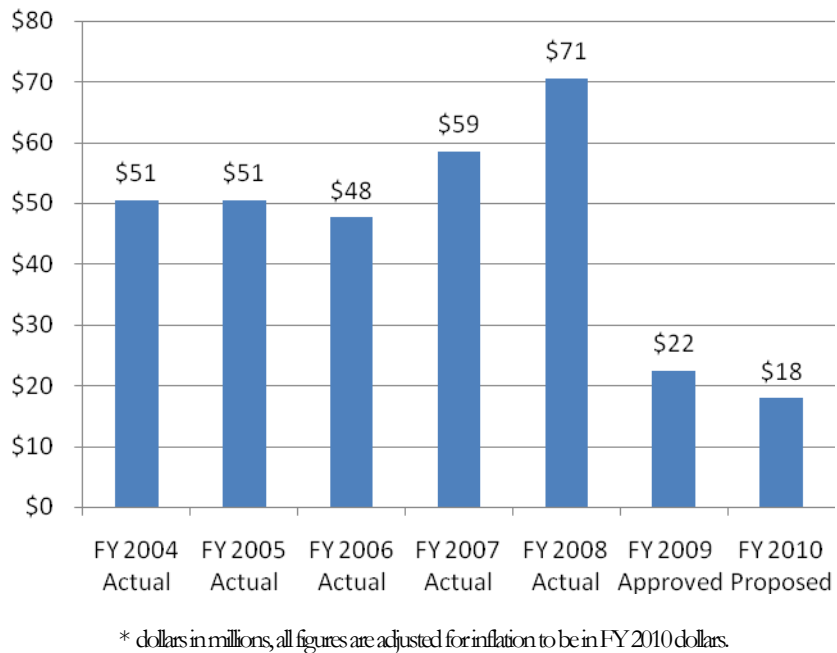
³ The stimulus funds are intended to address the fact that cities and states have not been able to use another financing mechanism — low-income housing tax credits (LIHTC) — due a weakened market for these credits. Only projects that were already awarded credits in FY 2007, FY 2008 or FY 2009 are eligible.

⁴ The \$34.2 million removes the \$8.8 million for the tax credit program.

⁵ 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>

The decline in funding for the Housing Production Trust Fund also means that current demands far outweigh available resources, and this means that many viable affordable housing projects will not get funded. According to a paper by DCFPI and the Coalition for Nonprofit Housing and Economic Development (CNHED), as of June 2008 the HPTF had a balance of \$98 million.⁶ The paper noted that of that \$98 million, \$64 million was obligated to affordable housing projects and that nearly \$157 million of additional funding would be needed to finance the projects that were ready to go in the pipeline. Because of these demands, affordable housing project needs outweighed available HPTF resources by at least \$123 million in June 2008.

FIGURE 3: FUNDING FOR THE HOUSING PRODUCTION TRUST FUND, FY 2004-FY2010*



Without additional support, the District may not even be able to support all projects that have received preliminary HPTF awards or support the growing backlog of projects needing funding. In fact, because of the falling deed tax revenues into the HPTF, DHCD has delayed issuing a new request for proposals (RFP) until 2009.⁷ The last comprehensive RFP was issued in November of 2007.

The rapid decline in funding for the Housing Production Trust Fund in recent years indicates that the volatility of the deed taxes makes them an unstable way to fund the Trust Fund — and that a more stable funding source is needed to enable the HPTF to continue meeting its housing production purpose. For this reason, the DC Council adopted legislation in the fall of 2008 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. The FY 2010 budget does not provide a new funding mechanism or meet the funding goal set by the Council.

Another challenge facing the Housing Production Trust Fund is that the District had expected to rely on it as a major funding source for the New Communities Initiative. The District has authorized securitization of up to \$16 million from the HPTF to back bonds that would support

⁶ Ibid

⁷ Lazere and Pohlman (2008).

New Communities projects. The current expectation is that only \$6 million will be securitized as of FY 2010, yet even this represents nearly one third of the Trust Fund's new resources and leaves just \$12 million in FY 2010 for core HPTF purposes. 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.

A final challenge that constraints the ability of the HPTF to finance new affordable housing developments is that for FY 2010 the allocation of HPTF resources for administrative costs will be increased from five percent of the available resources to 20 percent of available resources. The increased allotment for administrative costs is likely a result of the fact that five percent of available resources are no longer sufficient to support administrative costs because the funding has fallen so dramatically. Even so, this further reduces the amount of funding available to support affordable housing projects.

The DC Housing Authority Local Subsidy

The DC Housing Authority (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 (LRSP), following a recommendation of the city's 2006 housing task force for nearly 15,000 new rent subsidies over 15 years.

The proposed DC Housing Authority subsidy for FY 2010 is \$25 million, \$6 million less than the budget of \$31 million in FY 2009. The FY 2010 funding level is \$8 million lower than the originally approved budget of \$33 million for FY 2009. Some \$2 million was cut from the FY 2009 budget in the fall of 2008 in response to a mid-year budget shortfall.

DCHA is expected to be able to continue funding all commitments in FY 2010, including some projects that have been awarded contracts but have yet to move forward because of financing difficulties, in FY 2010 by using unspent funds carried over from prior years. The funding is expected to continue to support the 678 families that have LRSP vouchers and the 948 units—that are either occupied or have funding commitments—that are subsidized with LRSP vouchers. The carryover funding has gone unspent because it has been obligated to some projects that have had delays in moving forward due to financing difficulties. Even with the carry over funds though, no new contracts for affordable housing projects or new local rent supplement vouchers can be issued in FY 2010.

The proposed FY 2010 funding level is the same as the FY 2008 funding level, which means that it would be the second year in a row that DCHA has not received an increase in funding or even an adjustment for inflation. Because housing costs rise each year, flat funding makes it difficult to maintain adequate assistance. Without additional funding, the number of families served by these funds may actually decline in future years.

The flat funding for the DC Housing Authority has several implications.

No progress in reducing housing waiting lists. Some 26,000 households are on the DCHA waiting list, and Mayor Fenty has supported the goal of eliminating it. Without additional funding for LRSP, the FY 2010 budget will not make a dent in reducing the waiting list.

Failure to make progress in the goal to fund 14,600 subsidies in 15 years. Under this goal set by the 2006 Comprehensive Housing Strategy Task Force, the city should create roughly 1,000 new subsidies each year. To date, the District has funded roughly 1,650 households under the Local Rent Supplement Program. Flat funding for DCHA in FY 2010 — and no new subsidies — means that the District will be nearly 2,250 units behind its goal of 3,900 units in FY 2010, four years after the Task Force report.

Limited effectiveness of other housing programs. LRSP 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 (\$51,350 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.

Other Affordable Housing Funding in the FY 2010 Budget

Affordable housing programs are also carried out in two other agencies, through the Bridge Subsidy Program at the Department of Mental Health and the Permanent Supportive Housing program within the Department of Human Services.

The Bridge Subsidy program at the Department of Mental Health is designed to help individuals ‘bridge’ from temporary housing into long-term stable housing by providing them transitional housing and services to help them move towards independent living. In FY 2010, the Bridge Subsidy Program will receive \$5.5 million, no change from the FY 2009 funding level. This level is not adequate to meet the full need. In FY 2009, the program ran out of funds five months into the fiscal year. Without an adjustment even for inflation in FY 2010, the program could run out of funds earlier in FY 2010.

The Permanent Supportive Housing Program, know as Housing First, was created in FY 2009 with \$19 million to place chronically homeless individuals and families into permanent supportive housing with case management services. The program contained a capital component for site acquisition and renovation needs and an operating component for case management services and ongoing operating costs such a rental subsidies. Some \$7 million of the FY 2009 allocation was eliminated —nearly all of the capital funding—in response to a mid-year revenue shortfall. The near elimination of capital funding means that the program is limited in the amount of site acquisition that it can do and its ability to rehabilitate units to make them accessible to persons with disabilities.

For FY 2010, the proposed budget would provide \$12 million for the program for operating costs and case management services, a continuation of the funding level it received in FY 2009 after the budget cuts. This means that the program should be able to continue to house the 655

individuals and 80 families that are expected to be placed by the end of FY 2009, but that it will not be able to house any new individuals or families in FY 2010.

Stimulus Funding for Affordable Housing in the FY 2010 Budget

The FY 2010 budget contains approximately \$28 million in federal stimulus funds for affordable housing and related programs. More than half of that will go the DC Housing Authority, and the remainder will go the Department of Housing and Community Development. In addition, the FY 2010 budget proposes using \$6.5 million in flexible stimulus funds for HPAP.

- DCHA is expected to receive \$9 million in FY 2010 to make capital improvements to existing public housing units;
- DHCD will receive \$8.8 million for affordable housing construction projects to offset the weakened low-income housing tax credit (LIHTC) program. It also will receive \$2.5 million for emergency housing assistance to prevent homelessness and \$872,000 for lead abatement activities;
- The Mayor's proposed budget also directs \$6.5 million of the stimulus' state fiscal stabilization fund — a flexible fund that states can direct to any program — to the HPAP program.

Other Issues to Track in the FY 2010 Budget for Affordable Housing

The elimination of the Rental Housing Commission raises concerns: In FY 2010, the Budget Support Act proposes to eliminate the Rental Housing Commission (RHC) and move the review of hearings to the DC Superior Court. In addition, whereas rules for rental housing regulations were reviewed by the RHC, the authority to review rules will be given to Mayor. One of the reasons given for the elimination of the RHC is its inefficiency yet it is not clear how the transition of the duties of the RHC will be implemented and how the capacity to review and hear complaints will be improved by its elimination. More information on these steps is needed.

Affordable Housing funding for FY 2011 and beyond needs a boost: Both local and gross funding for affordable housing is down in FY 2010 from FY 2009. In fact, total funding for affordable housing is at the lowest it has been since FY 2006. Funding for affordable housing did begin to rise in FY 2007 and up through FY 2009—before budget cuts were made—however it has fallen sharply since. This means this District is no longer making progress towards the recommended annual \$200 million increase in local funds that the Comprehensive Housing Strategy Task Force recommended in 2006.

In addition, most of the core programs for affordable housing have seen flat funding or a decline in FY 2010. And some critical affordable housing programs—such as HPAP and LRSP—are being funded with stimulus dollars and reserves, which are not sustainable. It is understandable to use funds this way in a tight budget year, but it does raise concerns for how these programs will be funded in FY 2011 and beyond—especially if the economy continues to lag.

With the continued rapid decline of the Housing Production Trust Fund, the lack of an increase in DCHA funding, and decreases to some of the major affordable housing programs — like HPAP — affordable housing funding is likely to be much lower in 2011 and beyond unless a local boost to funding is found.