
GOVERNMENT OF THE DISTRICT OF COLUMBIA



DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT

TESTIMONY OF
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DIRECTOR

**Public Oversight Roundtable, “The State of the Home
Purchase Assistance Program (HPAP)”**

Committee on Housing and Urban Affairs
The Honorable Marion Barry, Chairman
Council of the District of Columbia

Wednesday, December 10, 2008
11:00 a.m.

John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004
Room 412

Chairman Barry and members of the Committee on Housing and Urban Affairs, I am Leila Finucane Edmonds, Director of the Department of Housing and Community Development. I am here today to discuss the state of the Home Purchase Assistance Program and, more broadly, the financial trends that have impacted this program and the entire Department's budget.

As you are keenly aware, Chairman Barry, the current national recession and the housing market fallout that served as its catalyst are causing tax revenues to plummet and forcing cities and states to cut expenses. From coast to coast, cities are bracing for painful cuts to important programs and services. New York City Mayor Michael Bloomberg ordered an across-the-board cut to all city agencies, saving \$500 million this year and \$1 billion in FY 2010. In Chicago, Mayor Richard Daley plans to eliminate over 1,000 vacancies and let more than 900 city workers go to help cover a \$469 million shortfall. And in the Seattle area, King County is cutting the number of police officers to offset a projected \$93 million budget deficit.^[1]

As for the states, the National Governors Association reports that the recent jump in unemployment combined with the substantial erosion in both income and sales tax revenues has forced 18 states, including our neighbors to the North and South, to cut their budgets by more than \$5.5 billion already in FY 2009.^[2] Against this backdrop, DHCD has been preparing for months to do more with less.

^[1] Kahn, Chris, *Amid meltdown, US cities cut funds for sports, health, blight prevention services*, Chicago Tribune, October 19, 2008.

^[2] National Governors Association, *State Economic Review*, November 2008.

Even before the Executive and Council proposed plans for closing the revenue shortfall in FY 2009, my staff and I began working with the CFO last summer to revise the Department's budget based on more recent revenue estimates. Three key factors attributed to the decrease from the Department's approved budget of the actual budget available for FY09: 1) the revenues from deed recordation and transfer taxes that go into the Housing Production Trust Fund fell dramatically; 2) anticipated carry-over balances from FY 2008 were expended on successful affordable housing projects last year; and 3) changes in available CDBG program income.

The Mayor's FY 2009 budget request for DHCD included three important tools for weathering the current financial storm. First, knowing that other resources would be limited, the Mayor requested an infusion of local dollars for the HPAP program in order to fill the gap left by decreased HPAP repayments, to redirect scarce CDBG and HOME dollars to important development projects, and to boost repayments cycling back into the program in subsequent years. Second, the Mayor requested \$10 million for the Land Acquisition for Affordable Housing Development Opportunities (LAHDO) program; funds that would be available for use for abandoned properties, foreclosure issues and financing of affordable housing development. Finally, the Mayor proposed a Unified Fund to allow greater flexibility in shifting the Department's resources to meet the rapidly changing needs of the housing market.

Because each of the Department's funding sources have restricted uses and must meet strict eligibility requirements, we labored over the summer to develop a revised budget that balanced the resource needs of the entire

Department. Our Agency Fiscal Officer drafted a reprogramming request accordingly. The Council's recent budget freeze on over \$20 million approved for DHCD programs is the latest budget challenge that we must absorb. I'll turn now to the specific challenges faced by each of the affected programs, starting with the Home Purchase Assistance Program.

HPAP

The Home Purchase Assistance Program (HPAP) has been in existence for more than 30 years. It is one of the Department's key tools for providing homeownership opportunities to low- and moderate-income residents. Homeownership helps to stabilize both individual households and the community as a whole. For each of the past two years, HPAP helped more than 500 residents become homeowners—up from 278 in FY 2006.

As part of the HPAP program restructuring that occurred at the end of FY 2006, demand increased dramatically as did the size of the average loan. Further, payment terms changed so that all new HPAP loans are now deferred for the first 5 years after settlement. Also, in FY07, there was a significant drop in repayments of HPAP loans as fewer homeowners refinanced their homes. These factors created a reduction in revenue from the repayment of loans that would normally revolve back into the funding stream of new loans. This reduction in revenue is projected to improve in FY11, when repayments begin on deferred loans made since FY06. As I mentioned before, to fulfill this revenue gap in FY09, the mayor's budget included an infusion of \$19 million in local funding for HPAP. This was to sustain the level of service and to allow the Department to again help more than 500 District residents realize their dreams of owning a home.

My staff and I began to work with the CFO on a major reprogramming last summer when it was clear that the agency's overall approved budget could not be supported. The request to reprogram \$11,218,604 in CDBG funds is to ensure that DHCD can fund the Development Finance Division (DFD) Program and the Quality Assurance. Also, the reprogramming of \$4,000,000 in HOME funds ensures that DHCD can fund DFD and Single Family Residential Rehabilitation Program.

The Department did not believe that the reprogramming to \$23 million would overburden the HPAP budget of \$34 million because of the \$19 million in local funds. However, the Council's action to freeze \$11 million in local funding for the program leaves HPAP with approximately \$12 million. Of the \$12 million, \$11.7 million is earmarked for existing contracts. Of the \$11.7 million, as of November 30th, 2008, \$3.4 million has been spent on 70 closed contracts. We anticipate the other contracts to close prior to September 30th 2009.

HPAP has a significant impact on development in the District, and on the community as a whole. HPAP touches many areas of the District's real estate market, particularly District-funded affordable housing developments and other affordable housing programs, such as the New Communities Initiative, the Ivy City Redevelopment Plan, Inclusionary Zoning and the Affordable Housing Land Trust.

For-sale affordable housing developments often rely on purchasers using HPAP as a source of financing, thereby enabling them to afford their home.

Some of the major developments that rely on HPAP include projects in which the District has other significant commitments, such as Henson Ridge (Ward 8), Arthur Capper/Carrollsbury (Ward 6), Mayfair Mansions (Ward 7), Hilltop Terrace (Ward 7), Capital Gateway (Ward 7), Woodson Heights (Ward 7), Carver Terrace (Ward 7), Sheridan Terrace (Ward 8) and Homes at Woodmont (Ward 7), just to name a few. Without HPAP, and in this challenging credit market, all of the aforementioned projects are vulnerable, and will likely need to be restructured.

In addition, HPAP has a substantial impact, not only on our vendor the Greater Washington Urban League (GWUL), but on many of the District's non-profit affordable housing providers and counselors, such as MANNA, LEDC, HCS, Mi Casa, Habitat, Carecen, Lydia's House, Marshall Heights Community Development Corporation, Development Corporation of Columbia Heights, and others who anticipate the availability of HPAP for their purchasers.

At the current funding level, the Department will be unable to open the program to new applicants for FY09. HPAP is both a stimulus and an income-generating program. Without HPAP, the District and DHCD in particular will face a negative multiplier affect—fewer HPAP recipients may result in lower property tax revenues, lower HPTF revenues to put into new projects for future homebuyers, and less stable communities in need of more community development supports. In light of these pressures, we will work with the Mayor and members of the Council on a plan to maintain this 30 year-old program.

By our analysis, an additional \$5 million to the program would allow us to provide 321 loans at the current scale, which has a maximum loan amount of \$70,000, or, if the maximum loan amount was decreased to \$40,000, 449 loans to first-time homebuyers.

I want to turn now to the other less high-profile areas of the Department affected by the Council's November 10th budget cuts.

Housing Regulation Administration

The approved FY 2009 budget for the Housing Regulation Administration included a policy initiative of \$595,000 in local funds to establish a non-personnel service budget for the division. As you know, HRA was transferred from DCRA to DHCD in FY 2008 and is responsible for condominium and cooperative conversions, residential rental housing regulation, rent adjustment procedures, and staffing for the Rental Housing Commission.

These local funds, which also were frozen last month by the Council, are essential to providing the entire non-personnel services budget necessary to operate a division of almost 30 FTEs. Without this funding HRA will be unable to perform basic tasks such as mailing correspondence to constituents, and to incur any expenses outside of personnel, including the audits, structural engineering reports, vacancy exemption inspections, and other tasks that are necessary to carry out the day-to-day operations involved with administering the Rental Housing Conversion and Sale Act of 1980, as amended (D.C. Official Code § 42-3401.01 et. seq.), the Rental Housing Act of 1985, as amended (D.C. Official Code § 42-3501.01 et. seq.), and the

Condominium Act of 1976 Technical and Clarifying Amendment Act, as amended (D.C. Official Code § 42-1901.01 et. seq.).

LAHDO

The FY 2009 approved budget also included a policy initiative for \$10 million in local funds to allow DHCD to resurrect the LAHDO program, after 10 years of dormancy. By freezing the funding for this policy initiative, the Department has very limited funding to support its Property Acquisition and Disposition Division, which acquires vacant and abandoned buildings and vacant lots for affordable housing preservation, production, or to address foreclosure issues in general and within our portfolio.

Moving forward, we will continue to work on solutions to the budget shortfall. While in a fiscal climate like this, there are only difficult choices to be made, I am confident that with the administration and the Council working together we can arrive at resolutions that stretch every dollar to maximize the resources available during these challenging times.

Chairman Barry, this concludes my testimony. My staff and I are available to answer any questions you may have.