GOVERNMENT OF THE DISTRICT OF COLUMBIA

Department of Housing and Community Development

Public Oversight Roundtable

Testimony of
Drew Hubbard
Interim Director

Before the
Committee on Housing and Executive Administration
Council of the District of Columbia
The Honorable Anita Bonds, Chairperson

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DRAFT November 8, 2021

Good morning Chairperson Bonds, members, and staff of the Committee on Housing and Executive Administration. My name is Drew Hubbard and I am the Interim Director of the Department of Housing and Community Development ("DHCD"). I thank you for the opportunity to appear before you to testify at this roundtable regarding the Housing Production Trust Fund ("HPTF"), how it functions, and the report from the Office of the Inspector General.

Before I continue, I want to make one thing clear. Every dollar from the Housing Production Trust Fund goes toward our programs that build and preserve affordable housing in our city. **Period.**

The Housing Production Trust Fund was created by the Housing Production Trust Fund Act of 1988 as a special revenue fund to provide gap financing for affordable housing projects targeting low, very-low, and extremely-low income households. Since Mayor Bowser took office in January 2015, over $760 million from the Housing Production Trust Fund has been invested in affordable housing projects across our city. This means the District has invested more funds into affordable housing, per capita, than any other city in the country. And we have seen the results. Since 2015, we have produced and preserved over13,400 units of affordable housing with another 12,300 under construction or in the pipeline.

HPTF funding for multifamily affordable housing is primarily awarded through a Consolidated Request for Proposals ("RFP") that DHCD uses to solicit applications for affordable housing projects that need gap financing like Low-Income Housing Tax Credits, Local Rent Supplement Vouchers, Community Development Block Grants ("CDBG"), HOME, and National Housing Trust Fund dollars. For every dollar invested in affordable housing through HPTF, another $2 is invested by private and federal sources.

Since the 2015 Consolidated RFP, new construction finance from HPTF has only funded the production of units for families at or below the very low-income band, 50% of the Median Family Income ("MFI"). In 2021, that means a family of four who makes less than $64,500. As you can see in the chart attached to my written testimony, the changes to the RFP in 2015 have allowed us to more intentionally target lower income families in our housing production. Every year since, more investment has been made for very-low income households. However, as we have acknowledged before you at past performance oversight hearings, we know we need to do more to coordinate HPTF investment to deliver affordable homes for extremely low-income households, those at or below 30% of MFI. That means a family of four who makes less than $38,700.

As we stated in our response to the OIG Report, HPTF cannot and does not operate in a silo: It is not the sole tool for production of affordable housing for low-income residents but just one among many tools that can be leveraged to build affordable housing. And even after the buildings are completed there remains a need for ongoing financial resources through rent supports and services. These are not HPTF resources, but instead, require coordination of resources across our sister agencies like the DC Housing Authority and Department of Human Services. One such resource and one of the main tools used to reach our lowest-income residents is the Local Rent Supplement Program. Until the Fiscal Year 2022 budget, this resource was managed primarily by the DC Housing Authority even when it was intended to produce affordable housing through the consolidated RFP. However, working with DCHA, this Committee and the entire DC Council, Mayor Bowser's inclusion of the "Local Rent Supplement Program Enhancement Amendment Act of 2021" in the FY 22 Budget Support Act, DHCD, will be the lead in coordinating the budgeting of this operating subsidy with the HPTF and other financing, starting in FY 23, and for the first time. This will make it much easier for the HPTF to meet its goals to produce and preserve housing for extremely low-income households.

Anticipating this change, we have made production of affordable housing for extremely low-income households a priority in the 2021 Consolidated RFP that is currently open for proposals. This is an intentional signal to the development community that we are serious in our dedication to invest in affordable homes for extremely low-income households.

The OIG Report itself confirmed that our intentional approach to targeting the lower income bands is working when it stated that "DHCD met or exceeded its statutory goals for disbursing HPTF resources to produce and preserve affordable housing units for very low-income (i.e., 50% MFI and below) and low-income (i.e, 80% MFI and below) households."

The report also reached many other conclusions and recommendations. We have addressed these in our written responses attached to the Report, but I would like to highlight some of those responses here for the record.

<u>DHCD's Director Makes Final Project Selections</u>

The OIG Report made a group of recommendations around the Consolidated RFP process and project selection. We continue to maintain that any project that passes threshold eligibility review is a viable affordable housing project. It is incumbent upon the Director of DHCD to make final project selections in his or her discretion after considering project evaluations, but also more holistic goals like advancing neighborhood diversification or making high-amenity neighborhoods accessible to low-income households. We have included more detail to this fact in the current RFP to provide more guidance on selection to the development community.

<u>DHCD Thoroughly Evaluates and Documents Increases in Funding</u>

The OIG report recommended that additional affordable units be produced if there is an increase in project funding. This recommendation unfortunately highlights a flaw in OIG's analysis. DHCD, through the HPTF and other funding sources, serves as the gap financing partner on affordable housing developments. Without this gap financing, these affordable units simply do not get built.

As with any large project, a development's project costs may increase due to a variety of reasons. For example, the cost of construction materials could go up between the time an application is submitted in the Consolidated RFP and it breaks ground. However, this increase in cost does not come with a commensurate increase in buildable space or additional sources of gap financing. It is a cost increase that must be overcome to complete the proposed project. Therefore, it requires all of the project's financial partners, the lenders, tax credit investors, developer, and DHCD to come to the table and figure out how to solve this new gap to deliver this affordable housing project.

This is no different than your neighbor who is remodeling their kitchen. If the cost of a refrigerator goes up, should your neighbor justify it by building a second kitchen? No, that would be ridiculous.

While I could continue to cite specifics from the report and our responses, and I encourage everyone to read our responses posted on our website, I would like to speak to how we are improving every day to better target investment for extremely low-income households and how we can better work with this Committee to ensure the right measures are being used to track those efforts.

The HPTF statute states that at least 50% of funds disbursed during a fiscal year shall be for development of units serving extremely low-income households. The statute further states that at least 40% of funds disbursed during a fiscal year shall be for development of units serving very low-income households. We colloquially call these the "MFI buckets" and DHCD works tirelessly to hit them every year. However, I must note that the first goals were created at a time when there was much more limited funding for affordable housing and very little to create units for extremely low and very low-income households. With the creation and availability of new subsidies particularly the Local Rent Supplement Program, the HPTF is a smaller piece of the entire puzzle of a project's financing that may include Local Rent Supplement Vouchers, Low-Income Housing Tax Credits, National Housing

Trust Fund dollars, and many more that go in to create units for extremely low-income households. In other words, the more we are able to leverage multiple sources to build units at 30% MFI, the less total HPTF that is needed for that same unit. This means that while we may not hit the 30% MFI statutory bucket, we are stretching our HPTF dollars as best we can to produce more units of affordable housing for families making below 30% and 50% MFI. In fact, we even encourage this kind of leverage in the Consolidated RFP to help stretch our resources to build as many affordable units as possible.

DHCD would like to work with the Committee to develop a better way to measure investment in the statutory buckets. We have introduced legislation in the past that would better align project reporting to the actual development cycle and are happy to see that similar legislation has been introduced this year, enabling us to continue these fruitful conversations and ultimately establish a new accountability framework that truly measures the effectiveness and efficiency with which we budget and deliver affordable housing.

In closing, I would like to again reiterate that we are proud of our accomplishments to date and we know we must do more with more. We have had great success in hitting the 50% MFI bucket, and we look forward to continuing to work with the OIG and this Committee to improve our processes and produce even more units of affordable housing. Making 30% MFI units a priority in the current RFP coupled with the new process for allocating Local Rent Supplement Vouchers are a very positive step in that direction. We will continue to work with our sister agencies towards our goals of creating 36,000 units of housing, 12,000 of which will be affordable, by 2025. From my testimony today and the track record of performance I stand behind, there should be no doubt that Housing Production Trust Fund dollars go to build and preserve affordable housing in our city. Any other conclusion is simply false and an insult to those public servants who dedicate their working days to solving our affordable housing crisis.

To that end, I would be remiss if I did not thank my team at DHCD. Without them, none of this would be possible.

Thank you and I am available to answer any questions you may have.