CNHED

Coaliton for Nonprofit Housing & Economic Development

FY2025
BUDGET RECOMMENDATIONS

Affordable Housing and Homelessness Prevention

Prepared on February 15, 2024

Budget Recommendations
FY2025
Last Updated: February 15, 2024

CNHED

			FY22 Council Approved	FY23 Council Approved	FY24 Council Approved	FY25 CNHED Recommendations	FY25 Mayor's Budget	FY25 Approved
HOUSING	**Housing Production Trust Fund (HPTF)**		$250M	$444M	$100M	**$125M**		
	DC Housing Preservation Fund (HPF)		$19.3M	$0M	$0M	**$5M**		
	First Right to Purchase Program (FRPP)		$10M	$10M	$10M	**$30M**		
	DC Low Income Housing Tax Credit (DC LIHTC)*					**$5M**		
	Home Purchase Assistance Program (HPAP)		$18.8M	$20.9M	$18.34M	**$29M**		
	Employer Assisted Housing Program (EAHP)		$5M	$6M	$6M	**$6M**		
	Local Rent Supplement Program (LRSP)	*Project- and Sponsor-Based*	$2.9M (~$42M over 4 yr financial plan)	$38.2M over 4 year financial plan	$53M	**$65.75M** *($12.74M new LRSP)*		
	Permanent Supportive Housing (PSH)*	*Single*	$46.4M	$13.6M 500 units	$4.5M *150 new vouchers*	**$36.6M** *1260 Units*		
		Family	$10.8M	$8.3M 260 units	$3.4M *80 new vouchers*	**$22.8M** *580 Units*		
	Neighborhood Based Activities Program (NBAP)		$7.8M	$13.3M	$14.323M	**$17.5M**		
	Emergency Rental Assistance Program (ERAP)		$15M (+$19M supplemental)	$43M	$43M	**$50M**		
NOTES	* Currently, the DC LIHTC is applicable only to "qualified projects" that also receive federal low-income housing tax credits. Ideally, the Council will de-link the DC LIHTC from the federal credit so that DHCD could elect to fund a project with HPTF and DC LIHTC alone, and not need bonds and 4% federal LIHTC. ** In solidarity with The Way Home Campaign, the focus of which is ending chronic homelessness, CNHED makes these recommendations.							

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Coalition for Nonprofit Housing and Economic Development

Affordable Housing and Homelessness Prevention Recommendations for FY25 Budget Support Act

As the Council of the District of Columbia embarks upon the crucial task of shaping the budget for the upcoming fiscal year, we at the Coalition for Nonprofit Housing and Economic Development (CNHED) wish to offer our insights, recommendations, and unwavering support in navigating these challenging times.

About CNHED

Established in 2000, The Coalition for Nonprofit Housing & Economic Development is a dynamic 501(c)3 membership-based nonprofit that advances equitable community economic development solutions in District of Columbia. Since our inception, CNHED has grown from 55 organizations to nearly 180 today. Our holistic systems-change approach encompasses community-informed budget and policy advocacy, data-driven thought leadership, and needs-based programmatic initiatives in the areas of Housing and Homelessness, Workforce Development, and Small and Minority-owned Business Ecosystem Building. CNHED's organizational members include nonprofit and for-profit affordable housing developers, housing counseling and service agencies, community economic development organizations, workforce and business development entities, lenders, intermediaries, and government agencies.

Executive Summary

Echoing Mayor Bowser's vision, we believe that safe and stable housing is foundational to a safe and stable life. This conviction has only been strengthened in the face of the pandemic. Now, as we embark on the District's recovery journey, we must reaffirm our commitment to affordable housing, both in rehabilitation and new construction, across a spectrum of options to serve low-income residents.
In light of the current fiscal challenges, including the end of federal relief assistance and the impacts of high vacancies and lower revenue projections, CNHED stands ready as a partner beside the Council and administration. As we approach this fiscal year, CNHED acknowledges the difficult choices ahead due to shifting revenue projections. While we have adjusted some of our recommendations accordingly, we strongly urge the Council to prioritize investments in our most vulnerable populations and the programs that support them.

In the forthcoming narrative, we will detail our budget recommendations for various programs, providing an overview of each program's importance, the overall need, and our rationale for the budget numbers proposed. Furthermore, CNHED and our membership extend an offer to partner with the District government in these trying times. We are committed to helping improve program design, develop process improvements, and correct historical injustices, thereby benefiting the under-resourced residents of the District.

Together, we can build a more inclusive, equitable, and prosperous future for all residents of the District of Columbia.

Housing Production Trust Fund (HPTF)

FY25: $125 million

The Coalition for Nonprofit Housing and Economic Development (CNHED) recommends an allocation of $125 million to the Housing Production Trust Fund (HPTF) for Fiscal Year 2025. This investment is crucial to address the growing need for affordable housing in the District of Columbia. The allocation will enable the production of approximately between 450 to 625 affordable housing units, considering an average unit cost of $200,000. This recommendation comes amidst challenging fiscal conditions, with the District facing lower-than-expected revenues.

The HPTF, established to support the development and preservation of affordable housing in Washington, D.C., plays a pivotal role in maintaining housing affordability for low- and moderate-income residents. Since 2015, the fund has produced 11,758 units at an average subsidy per unit under $150,000. The fund finances the construction, rehabilitation, and acquisition of affordable housing, thereby ensuring a diverse and inclusive community.

A recent 100-year analysis conducted by CNHED member, Partrick McAnaney of Somerset Development, shows the compounding impact the trust fund can have when continually supported with annual allocations at or above $100M. His analysis shows the production of nearly 165,000 units during this timeframe.

Currently, the District is grappling with a significant shortage of affordable housing, exacerbated by the economic impacts of the COVID-19 pandemic. This shortage is critical, given that housing affordability is a determinant of quality of life and economic stability. Concurrently, the District faces budgetary constraints due to lower than anticipated revenues, posing a challenge to funding allocations.

CNHED's request for $125 million is moderated based on the current housing market, the District's needs, and a recognition of the financial constraints faced by the District. The estimated production of 450 to 625 units at an average cost of $200,000 per unit is both a realistic and impactful goal. This investment aligns with the District's broader objectives of promoting inclusive growth and ensuring that low- and moderate-income residents have access to affordable housing.

Local Rent Supplement Program (LRSP)

FY25: $65.75 million

The Coalition for Nonprofit Housing and Economic Development (CNHED) advocates for a robust funding allocation to the District of Columbia's Local Rent Supplement Program (LRSP) for Fiscal Year 2025. Given the escalating housing affordability crisis in the District, CNHED proposes a budget of $65.75 million for LRSP. This funding is essential to support low-income households by subsidizing their rental costs, directly addressing the immediate needs of those most affected by housing instability and the broader economic impacts of recent years.

The LRSP is a critical component of the District's strategy to provide affordable housing solutions to its most vulnerable residents. It offers tenant-based and project-based rental subsidies, making housing affordable for low-income families and individuals.

The current housing landscape in Washington, D.C., characterized by rising rents and stagnant wage growth, has led to an unprecedented need for rental assistance. The ongoing recovery from the economic effects of the COVID-19 pandemic has further exacerbated this situation, creating an urgent demand for increased support through programs like the LRSP.

CNHED's recommendation of $65.75 million for the LRSP in FY25 is based on an analysis of the estimated existing LRSP contracts ($53M from FY24) and the estimated new contracts based on the Coalition's HPTF $125M request ($12.75M), and the program's proven effectiveness in preventing homelessness and housing insecurity. Project- and sponsor-based LRSP is used to produce new housing affordable to extremely-low-income households by providing operating subsidies as part of the development process. These homes are needed to: (1) meet the goals of the Homeward DC plan by supporting the production of Permanent Supportive Housing (PSH) in new developments (including the 5% now required in all DHCD-funded rental projects); and (2) allow the production of housing for people with extremely-low-incomes beyond the scope of the Homeward DC plan to serve additional individuals and families. Project-based LRSP covers rent, maintenance, utilities, and other ongoing expenses not covered through one-time HPTF loans.

With these goals in mind, CNHED recommends $65.75M for new LRSP contracts. Based on our current analysis, this will cover the cost of the existing LRSP contracts ($53M) and the estimated number of new contracts needed to meet the 50% threshold of the HPTF to provide 30% AMI units, estimated at an additional $12.75M for 337 LRSP units. The proposed budget reflects the pressing need to support low-income residents amidst the current economic and housing landscape, while also being mindful of the District's fiscal limitations.

Housing Preservation Fund (HFP)

FY25: $5M

CNHED requests a specific allocation of $5 million in the FY25 budget for Housing Preservation Fund (HPF), aimed at supporting the existing portfolio of outstanding HPF loans. This funding, requiring flexibility beyond the terms of the public-private loan pool, will replenish interest reserves, cover critical repair costs, and provide strategic support. This investment is crucial to prevent the loss of a significant portion of D.C.'s affordable housing stock and displacement of residents, ensuring over $120 million in loans are effectively utilized for the intended purpose of housing preservation.

The HPF was created by the Mayor and City Council in the Fiscal Year 2018 Budget Support Act at the recommendation of the DC Housing Preservation Strike Force to increase the preservation of affordable housing in the District of Columbia. The goal of the Housing Preservation Fund is to aid in achieving the policy objective of the DC Housing Preservation Strike Force: "Preserving the affordability of 100% of its existing federally and city-assisted affordable rental homes." HPF was set up as a non-lapsing fund so that any money appropriated would be continually available to fund activities necessary to preserve the affordability of housing units.

Three fund managers have been granted funds from HPF to be blended with private resources at a 3:1 private-to-public leverage ratio to create a revolving loan pool that provides short term bridge acquisition, predevelopment, and critical repair financing *as borrowers apply for and secure long-term permanent financing from other private lenders and public agencies.*

This private-public revolving loan pool has been extremely successful and become a critically important resource to preserve affordable housing that may have otherwise been lost to the market. Since HPF's inception, $46 million has been granted to the fund managers, creating a lending pool of $184 million, of which $166 million has been deployed across 36 loans. **As a result of the affordability covenants that accompany HPF loans, a total of 2,500 units considered affordable at or below 80% MFI have been contributed to Mayor Bowser's goal of 12,000 affordable units by 2025**. To date, a little over $45 million of HPF loans have been repaid and are therefore available to be lent again to preserve more units.

However, there is still over $120 million in outstanding HPF loans. As short-term loans, virtually all of these are maturing over the next 3 years, and the majority are maturing within the next 2 years. Because of the large amount of subsidy required to make most affordable housing projects economically feasible, close to 90% of the outstanding HPF loans are relying on some combination of Low Income Housing Tax Credits, Tax Exempt Bonds, and Housing Production Trust Fund awards as their permanent financing solution.

Unfortunately, due to a confluence of macroeconomic conditions that were not present just a few years ago when these HPF loans were originated, these essential sources of permanent financing are suddenly in precious short supply. 9% LIHTC is always scarce, but most affordable housing projects have been able to rely on the combination of non-competitive 4% LIHTC and tax-exempt bonds. Then, in 2023, DC reached its bond cap, severely limiting the number of affordable housing projects that could be financed. Furthermore, a decimated downtown office sector has resulted in depleted tax revenues, which is placing unprecedented strain on HPTF. Because of these macroeconomic conditions, traditional capital markets have tightened up, with many banks simply pausing all construction lending, leaving affordable housing projects with very few viable alternative permanent financing options.

All of this leaves the current portfolio of HPF loans in an extremely precarious position. While a small handful of these preservation projects have DHCD award letters and are in the DHCD underwriting queue, the majority are anxiously awaiting DHCD's next Consolidated RFP to apply or reapply for the aforementioned essential sources of permanent financing. However, it is going to take a few years to clear out the current backlog of projects, and therefore most of the current HPF loans will require extensions beyond their original maturity dates. Loan extensions mean borrowers will be facing unanticipated carrying costs - namely, additional interest payments and the cost to perform critical repairs that can no longer be deferred. Many borrowers cannot afford these additional carrying costs, and some very respected developers have had to resort to selling off parts of their affordable housing portfolio to repay their loans, which is the exact opposite of HPF's public policy objective of preserving affordable housing. These costs are disproportionately hard on our local developers of color, who as a result of structural racism, are not as well capitalized and therefore less able to weather this storm as their white counterparts.

However, with a relatively small influx of flexible capital, the HPF fund managers could replenish depleted interest reserves, cover unavoidable critical repairs, and make other strategic investments to serve as a backstop for the current HPF loan portfolio and provide a lifeline for the preservation projects that need additional time to secure permanent financing and save them from being lost to the market. Therefore, CNHED urges the Council to provide $5 million to HPF in the FY25 budget to be used specifically to support the existing projects in the portfolio of outstanding HPF loans. While allocated to HPF, these funds should be permitted maximum flexibility and not be constrained by the terms of the public-private loan pool. With a relatively modest investment of $5 million, we have the opportunity to ensure that more than $120 million of loans do not go to waste and that thousands of DC residents do not suffer displacement from the loss of a critical portion of DC's affordable housing stock.

First Right Purchase Program (FRPP)

FY25: $30M

CNHED recommends appropriating $30 million for the First Right Purchase Program (FRPP) and separating it from the HPTF. The FRPP currently has no formal application process and has for several years been a soft segregation of $10 million within the HPTF that has been used discretionarily. This was repeated in FY24.

The FRPP is a rolling acquisition loan fund and historically has been the primary facilitator for utilizing TOPA to preserve affordable rental housing in the District and to create Limited Equity Cooperatives. We believe that an updated version of the FRPP would "…support the acquisition of small multi-family buildings (under 50 units) by tenant organizations and developers exercising TOPA or DOPA rights to create or preserve affordable rental or ownership housing protected by long-term covenants."[1] CNHED has presented several iterations of a proposal to revise the FRPP to DHCD over the past several years and hopes that the most recent version focusing on 5-49 unit properties can be the basis for the FRPP to once again become an active part of the District's affordable housing strategy. CNHED's recommended changes to the FRPP are below.

First Right Purchase Program (FRPP) for small multifamily properties: CNHED proposes to reconfigure the FRPP to enable tenant organizations to use their TOPA rights to preserve or create affordable housing at small rental properties for which the terms of the DC Housing Preservation Fund are not viable because of variables such as a combination of high acquisition cost, low rents, and high deferred maintenance needs. The FRPP should be limited to multifamily properties with 5-49 units for rental or for the creation of homeownership opportunities through limited or shared equity cooperatives. Aside from incorporation into a Low-Income Housing Tax Credit (LIHTC) pool, multifamily rental properties with 5-49 units that have the above characteristics have relatively few affordable housing development financing options, representing a gap in the District's affordable housing strategy for a significant portion of its existing naturally occurring affordable housing (NOAH) stock.

[1] "Saving DC's Rental Housing Market: A report of recommendations from Mayor Bowser's Strike Force to Save DC's Rental Housing Market," p. 17.

Why is FRPP Necessary?
Due to the unpredictability of when residential rental properties come up for sale, having an available, affordable funding source is critical. FRPP loans provide an essential, permanent acquisition source and a path forward for challenging projects that would not score well under current Consolidated RFP criteria (e.g., small scale, high percentage of subsidy needed due to very-low incomes, very affordable rents, deferred maintenance costs, and high acquisition costs). TOPA projects often have significant numbers of low-income tenants, many with household incomes below 50 percent of Median Family Income (MFI), with significant numbers below 30-40 percent of MFI. These projects often require 75 percent or more public financing due to rent limitations in serving this demographic. The FRPP is necessary to support projects for these and the following specific reasons:

- Projects may not qualify for the DC Housing Preservation Fund (HPF) or other bridge loans because they may be seen as too risky due to their limited ability to leverage private funding (high level of subsidy needed limits their take-out options and they do not compete well in the Consolidated RFP).
- Low average incomes and very affordable rent levels do not support much debt, even at the below market interest rates offered by the HPF, and interest reserves must be relied upon to make interest payments during the bridge loan period, which adds significant additional cost to the project after two to three or more years. (The amount of subsidy required to make these types of projects viable is higher than what HPF lenders are permitted to do under their current agreements with DHCD, and the smaller unit numbers make it more challenging for HPF lenders to meet the performance targets set with DHCD in terms of number of total number of units preserved.)
- Many NOAH multifamily properties with 5-49 units have significant deferred maintenance, which makes them unsustainable during a bridge loan period without funding that far exceeds the typical lender loan to value restrictions, even beyond the 125 percent loan-to-value permitted by the HPF.
- Many quality-of-life and healthy-housing deferred-maintenance issues may not meet critical repairs criteria to be covered by the HPF or DHCD's Small Building Program. This gap in repairs funding makes these 5-49 unit properties less competitive in the Consolidated RFP based on per unit rehabilitation costs and more difficult to carry while applying through one or more RFP cycles.
- TOPA projects tend to not score well in the Consolidated RFP, even those that qualify for an acquisition loan through the HPF; without the FRPP they are at much higher risk of not securing takeout financing, limiting the ability of tenant organizations to choose a development option that would preserve or create affordable housing.
- The nature of TOPA development teams, involving a tenant organization and small consultant entity, and group decision-making processes, makes it difficult to manage a five-or-more-year development process—and much more expensive—if multiple Consolidated RFP applications are required (added costs for bridge loan interest, multiple updates to due diligence requirements for the application). FRPP can offer a streamlined and lower cost alternative when Consolidated RFP funds are not needed.

Additionally, the District should make a policy decision to invest in the following kinds of projects that would not move forward without assistance from the FRPP.

Proposed Criteria for FRPP-Funded Projects
The following can apply where FRPP (or DHCD) is the sole lender, as well as to cases where FRPP leverages private financing as a subordinate lender or takes out some or all of a DHCD Preservation Fund loan.

- High level of public benefit: preventing displacement of low-income people, especially communities of color; preserving affordability in expensive neighborhoods; direct tenant ownership.
- Long-term affordability covenants: perpetual covenant and average rents affordable for households at/below 50-60 percent of MFI or a significant percentage at/below 30 percent of MFI.
- Limited Equity Cooperatives (LECs) or direct tenant purchase and buildings with community based organization (CBO) participation and strong agreement with tenants (100 percent of TOPA projects that preserve affordability have CBO assistance).
- Prioritize LECs and small rental properties of 5-49 units.
- Buildings with a high level of public subsidy needed to complete the project—on average DHCD financing providing 75 percent plus of total development costs, especially where Low Income Housing Tax Credits (LIHTC) is not applicable or feasible: self-ownership/LECs, very small projects, special interest, etc.
- Projects that would not score well in the Consolidated RFP because they do not qualify for Prioritization Scoring or need a high level of subsidy.
- Projects funded under the HPF that still may not score well in the Consolidated RFP, where FRPP could leverage private financing in a take-out package.

FRPP Application Review and Underwriting
Consider outsourcing all or in part: HPF lenders could take a "first cut" review and determine whether projects are a good fit for HPF loans or a better fit for the FRPP, or DHCD could outsource underwriting of the FRPP.

If DHCD retains underwriting in-house, the following are recommendations:

- DHCD can provide Development Finance Division (DFD) loan approval letters as a basis for private bridge loans with FRPP take out within 24 months.
- Certain priority projects might close the DHCD loan within the TOPA timeline—e.g., those that cannot support bridge loan interest, or
- DHCD could provide a soft interest reserve (recoverable grant or grant to reduce total development costs) to cover bridge loan interest.

Consolidated RFP scoring criteria for projects awarded FRPP funding should be adjusted in the following ways:

- Higher priority scoring (or fast-track) in the Consolidated RFP;
- Exclude the FRPP loan in calculating the total percentage of HPTF allowed, in effect allowing a higher percentage of HPTF for TOPA projects that use or meet the criteria for FRPP; and
- Make LRSP available outside of the Consolidated RFP.

Lastly, the DHCD Preservation Unit and DFD could convene semi-regular meetings with nonprofit technical assistance providers and bridge lenders to track potential TOPA purchases and strategize on funding such projects.

Neighborhood Based Activities Program (NBAP)

FY25: $17.5 million

CNHED was pleased to see the Mayor's proposed increase of funding for the Neighborhood Based Activities Program (NBAP) in FY24 and recommends that the Mayor and Council continue this trend by allocating $17.5 million in FY25.

The NBAP provides resources to Community Based Organizations (CBOs) to supply an array of essential services for District residents, including TOPA technical assistance, tenant housing conditions technical assistance, eviction and foreclosure prevention counseling, limited equity cooperative technical assistance, homebuyer counseling for HPAP and EAHP, Inclusionary Zoning (IZ) certification, Schedule H application assistance, and the Heirs Property Program.

The recently published, CNHED TOPA Study recommends that the District "proactively invest in legal clinics and allocate increased budget support to CBOs to keep up with tenants' need for support in navigating the TOPA process." It is believed that this will help foster a knowledgeable legal network to ensure and encourage comprehensive representation, especially within underserved communities, and sustain adequate tenant organizing capacity. Related recommendations include exploring legal capacity-building initiatives related to TOPA and expanding TOPA technical assistance grants—with a focus on equitable representation in Wards 7 and 8—and addressing disparities in access to resources.
This strategic allocation will enable effective navigation of TOPA processes, guidance for recommendation #3 for tenant rights, and vital support for affordable housing preservation.

Due to increased demand for HPAP and the need for additional TOPA-related services, CNHED strongly recommends increased funding for the CBOs to carry out these essential functions.

Home Purchase Assistance Program (HPAP)

FY25: $29 million

CNHED recommends an HPAP budget increase to $29 million for FY25. HPAP provides interest-free loans and closing cost assistance for residents purchasing single-family houses, condominiums, or cooperative units.

CBOs have confirmed an increase in the demand for HPAP due to the increased HPAP support for qualifying households and the limited supply of affordable home ownership units available to qualifying households. By providing $29 million for HPAP, at an average loan of $150,000, the District will be able to serve more than 190 households.

Employer Assisted Housing Program (EAHP)

FY25: $6 million

CNHED recommends flat funding for EAHP at $6 million. EAHP offers District government employees a deferred, 0% interest loan and a matching funds grant for down payment and closing costs to purchase their first single family home, condominium, or cooperative unit in the District. Down payment assistance is a critical tool to help first-time buyers purchase homes during a time when wealth-building is essential for long-term financial stability.

Permanent Supportive Housing (PSH)

FY25: $36.6 Million for 1260 units for individuals and $22.8 Million for 580 units for families

In solidarity with our partner The Way Home Campaign, CNHED advocates for $36.6M for 1260 single PSH vouchers and $22.8M for 580 family PSH vouchers.

PSH is a best-practice model of matching housing subsidy with wrap-around case management to ensure a long-term stock of housing that meets the needs of the District's homeless population. PSH has a proven record of ending chronic homelessness by helping residents maintain housing stability while improving health.

Emergency Rental Assistance (ERAP)

FY25: $50 million

CNHED recommends that the Mayor and Council provide at least $50 million for the Emergency Rental Assistance Program (ERAP) in FY25.

ERAP helps income-eligible District residents facing housing emergencies remain stably housed and avoid homelessness. The program provides funding for overdue rent if a qualified household is facing eviction (including late costs and court fees), as well as security deposit assistance. ERAP is effective at keeping tenants in their homes and is far less expensive than the costs per household for the District's shelter system and the increased healthcare costs for individuals and families who become homeless. ERAP also is far less expensive than the housing subsidies and services required for the Rapid Rehousing, Family Rehousing and Stabilization, and PSH programs to move people out of the shelter system.

However, CNHED also recognizes the challenges ERAP has produced for property owners as some able tenants have stopped paying rent placing landlords at considerable financial risk. CNHED recommends that the Mayor and Council prioritize ERAP support for tenants in subsidized properties to protect the District's existing investments in these properties.

DC Low-Income Housing Tax Credit (DC LIHTC)

FY25: $5 Million

CNHED is seeking an increase in budget authority for the District of Columbia Low-Income Housing Tax Credit (DC LIHTC) program. Annual budget authority equates to 10x in available capital. The requested $5M at the pricing floor of $.70 creates $35M in new project level equity. In a year where funding is tight, a dollar of DC LIHTC authority matches $7 of HPTF.

The DC LIHTC program is designed to incentivize the development of affordable housing through tax credits. Currently, the DC LIHTC is applicable only to "qualified projects" that also receive federal low-income housing tax credits. Ideally, the Council will de-link the DC LIHTC from the federal credit so that DHCD could elect to fund a project with HPTF and DC LIHTC alone, and not need bonds and 4% federal LIHTC.