



City of Austin

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Testimony of Paul Hilgers, Director
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before the

Subcommittee on Housing & Community Opportunity
Committee on Financial Services
United States House of Representatives

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Mr. Chairman and Members of the Subcommittee, my name is Paul Hilgers, and I am the Director of the Department of Neighborhood Housing and Community Development for the City of Austin, Texas. I am honored to have the opportunity to testify before you today regarding H.R. 1276, the American Dream Down Payment Act.

This written testimony is intended to provide an overview of our comprehensive housing investment strategy and how using the tool of down payment assistance has improved our ability to assist low- and moderate-income families in becoming homeowners, many for the first time. Homeownership is an integral part of the American Dream that is out-of-reach for many low-income families in Austin because of the high cost of single-family, owner-occupied housing. H.R. 1276 is a step in the right direction to remedy this problem.

H.R. 1276 is a step in the right direction because it provides additional resources for cities, like Austin, to provide down payment assistance to families to purchase a home. Oftentimes, this is the major barrier to families owning their first home. I support the \$200 million in funding requested in H.R. 1276. One of the major reasons for this support is that the legislation adds \$200 million to the HOME program and is not a set-aside. I cannot express enough the importance of the HOME program to my city and others in providing the flexibility and resources to fill the gaps in funding for our Down Payment Assistance Program and other affordable housing initiatives. I believe strongly in the delivery system established by the Community Development Block Grant and HOME programs. These programs allow local governments to make decisions about how the funds should be used to impact the most significant needs within their community.

I would also recommend that H.R. 1276 be expanded to include pre-purchase counseling. Low-income residents in Austin need pre-purchase counseling to inform them of the necessary steps to achieve homeownership, such as how to deal with credit issues, how to deal with resident status issues, and how to budget and plan for the fiscal responsibility of homeownership. Because of the language barrier that many of our residents face, it is only fair to them to provide pre-purchase counseling to ensure that they fully understand every aspect of the process. H.R. 1276 should also be amended to allow up to ten percent for administrative costs. To ask current HOME staff and administrative cost limits to absorb this new effort may undercut its success.

I respectfully request that the Subcommittee examine the current Uniform Relocation Act (URA) provisions and their disincentive to first-time homebuyer programs. Under the current URA provisions, any local participating jurisdiction that uses HOME funds for homebuyer assistance, even small amounts for down payment assistance, triggers URA relocation payments. This acts as a disincentive to local governments becoming involved in homebuyer programs where federal funds, like HOME, are used. In the end, it hurts the very population, low-income Americans, that HUD is trying to focus upon in its strive for homeownership.

Finally, I support this legislation because it brings attention to the need for affordable housing assistance, albeit down payment assistance. I would urge you, Mr. Chairman and other members of the Subcommittee, to continue to pursue affordable housing assistance in other areas, such as providing additional funding to HOME for housing production and other activities.

I. THE HOUSING CRISIS IN AUSTIN, TEXAS

Over the past decade, Austin, Texas has experienced double digit increases in the price of housing every year. The increased population and decrease in housing production within the City limits of Austin have virtually eliminated the previously bountiful housing supply. The result of this crisis has been the need to address housing from a comprehensive public policy perspective; i.e. to regard housing as a critical issue requiring leadership from our local government, Chamber of Commerce, low income housing advocates, non-profit housing providers, lenders, homebuilders and developers.

In 1999, a report entitled "Through the Roof" was produced by a coalition of housing interests within the city. The report serves as a blueprint for understanding the extremely complicated nature of housing issues and how they impact a variety of other social and economic conditions in Austin. The major issues outlined in the report are the same issues that many cities still face, such as "NIMBYism," a lack of available land for development, regulatory obstacles within the development review process, and the need for additional funds that could be leveraged with our federal HOME allocation.

II. THE HOUSING CONTINUUM: A FRAME WORK FOR INVESTMENT AND COLLABORATION

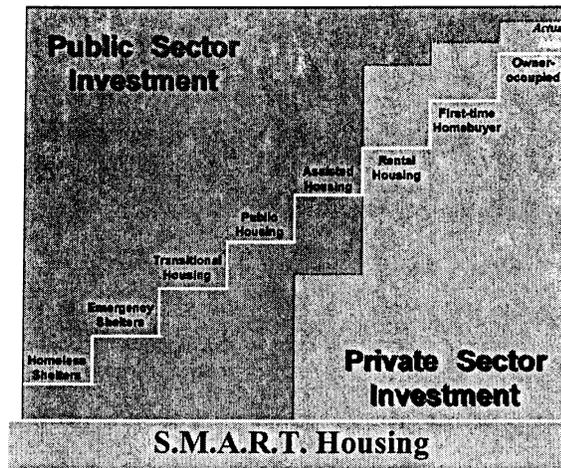
Several years ago, the City of Austin identified a "housing continuum" as the framework for investment to link housing programs through the community and to assist residents in moving into the private housing market. This continuum serves as a planning and evaluation tool for ensuring that there are housing opportunities appropriate to meet a spectrum of housing needs.

The continuum extends across eight categories -- from homeless services, emergency shelters, transitional housing, public housing and assisted housing to rental housing, first-time homeownership, and owner-occupied housing. This continuum is useful to the city in structuring programs that are coordinated in a manner designed to assist residents in moving toward self-sufficiency. It is a conceptual framework proven useful in designing programs that invest in housing opportunities according to the level of subsidy required by the specific functional category. The lower the income level of the client, the higher the subsidy.

Perhaps most importantly, this locally designed housing continuum provides a framework for collaboration and partnerships among formerly competing housing interests.

The Housing Continuum™

An Investment Strategy



Both the quantitative analysis of Austin's housing needs and feedback from residents and stakeholders reinforce the reality that there are serious housing needs facing every level of the continuum. It recognizes the reality that the housing crisis is impacting both the very poor as well as moderate-income families in our community. In Austin, we are continuing to work on developing the appropriate tools to address the housing needs of each functional category of the continuum. One of those critical tools is our Down Payment Assistance Program, discussed later in this testimony.

The foundation for the housing continuum and all of the City's housing programs is our S.M.A.R.T. Housing Initiative. This locally designed policy initiative is designed to remove the regulatory barriers to affordable housing and stimulate the production and preservation of housing.

III. S.M.A.R.T. HOUSING: REDUCING REGULATORY BARRIERS TO AFFORDABLE HOUSING

The Austin City Council adopted the S.M.A.R.T. Housing Initiative on April 20, 2000 to provide incentives to builders to assist in addressing the affordable housing supply. The goal was to stimulate the production of new housing that is Safe, Mixed-Income, Accessible, Reasonably Priced and Transit Oriented. All of our S.M.A.R.T. Housing meets Austin Energy's Green Building standards as well.

The implementation of S.M.A.R.T. Housing has been a tremendous success for our city. Both fee waivers and fast-track review are offered as incentives to builders and developers to turn vacant property into reasonably priced housing in a relatively quick time frame. This not only equates to more housing stock for our community, it also increases the city's tax base.

Since its inception, S.M.A.R.T. Housing production has exceeded the performance goals we set annually. The S.M.A.R.T. Housing Policy Initiative continues to receive national recognition and interest, most recently with requests for information from national newspapers, invitations to speak at national symposiums, and a Congressional appropriation of \$100,000 to expand the program.

In addition, we have seen benefits for both the city and the homeowner, including increased diversity in housing developments, energy savings for homeowners and renters living in S.M.A.R.T. Housing homes (estimated at \$525 annually for single family homeowners), improved notification and involvement of neighborhoods where S.M.A.R.T. Housing developments are located, use of surplus city property for S.M.A.R.T. Housing development, and Affordability Impact Statements for decision-makers that describe the possible impact of proposed ordinances and rules on housing affordability before proposed legislation is enacted.

S.M.A.R.T. Housing Production

	Complete	Currently Under Construction	Certified
Single Family	436	242	6,364
Multi-Family	1,356	493	8,288
TOTALS	1,792	735	14,652

IV. INCREASING LOCAL INVESTMENTS FOR HOUSING

One of the key elements of our local housing efforts is an increased commitment from the local government to make significant investments of general fund dollars to support housing production and preservation. The City of Austin has invested \$5 million over the past four years, a dramatic increase in the funds available to assist in the implementation of this comprehensive strategy. The city has also provided a direct appropriation to support the administrative operation of the Neighborhood Housing and Community Development Department of just over \$1 million per year.

Since the adoption of the S.M.A.R.T. Housing Policy Initiative, the City Council has provided \$1 million annually for a Housing Trust Fund. The Housing Trust Fund was created for the use of preserving and creating reasonably priced housing. A cumulative funding allocation of \$4 million dollars has been used to provide gap financing for several multi-family projects. Three out of every four Housing Trust Fund dollars are dedicated to the construction of new rental units for families at or below 50% Median Family Income, the families in our city with the greatest housing needs and that are most vulnerable to local gentrification pressures.

In addition, for the past two years the City Council has provided \$3 million of general fund revenue annually for a S.M.A.R.T Housing Capital Improvement Program. This allocation provides funding for the review team that provides special review for all S.M.A.R.T. Housing development, and

provides more flexible resources than our federal funds for the acquisition of property for future S.M.A.R.T. Housing development.

V. ESTABLISHING A LOCAL HOUSING PRODUCTION ENTITY: THE AUSTIN HOUSING FINANCE CORPORATION

The Austin Housing Finance Corporation (AHFC) was created in 1979, as a public, nonprofit corporation and instrumentality of the City of Austin under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The Austin City Council serves as the AHFC's Board of Directors. The AHFC's mission is to generate and implement strategic housing finance solutions for the benefit of low- and moderate- income residents of the City of Austin. The AHFC's primary functions are to:

- Issue single-family and multi-family bonds for the financing of reasonably priced housing;
- Assist the city in the delivery of reasonably priced housing programs using HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) funds granted to the city by the U.S. Department of Housing and Urban Development (HUD).

The housing programs are administered under an annual contract between the City's Neighborhood Housing and Community Development Office and AHFC.

VI. DOWN PAYMENT ASSISTANCE: AN EFFECTIVE TOOL IN A LOCAL STRATEGY FOR HOUSING

The City of Austin's Down Payment Assistance Program (DPA) provides deferred zero interest loans to assist with the down payment and closing costs in the city's housing continuum, described earlier. The loan is non-amortized, non-assumable, non-interest bearing, and secured by a lien on the property. The loan is repaid at the time the owner sells the home, refinances, pulls equity from the property, transfers title, or moves out of the property. Repaid funds are used to help future homebuyers in the program. H.R. 1276 would help the city provide more resources to assist families with their down payment needs through this highly successful program.

DOWN PAYMENT ASSISTANCE PROGRAM RESULTS

- In the past 5 months, an average of five families a week have become homeowners;
- An average amount of \$10,200 in down payment and closing cost assistance is provided to each household; and
- In the past 3 years, 619 households have been assisted by this program

SUCSESSES

Austin's partnership with the lending community is the backbone for the success of DPA. This includes marketing the program to our lending community and educating local realtors, builders and non-profits of the benefits of the program to consumers. Additionally, the city requires that all participants in the DPA attend a homebuyer education class prior to closing on the property. This assists in homebuyers understanding the responsibility of homeownership, and ultimately contributes to the success of the program.

We continue to improve the program through such recent efforts as streamlining the loan disbursement process, tightening program administration, improving the application review process, and providing greater outreach in priority neighborhoods.

CONCLUSION

While the City has initiated innovative programs for creating additional housing opportunities, several areas of concern confront us as we try to develop reasonably priced housing for our community. Specifically, we have identified the following challenges as we continue our efforts to eliminate barriers to affordable housing:

- the decreasing availability of buildable lots with clear title, at a reasonable price;
- the softening of the rental (multi-family) market; and
- promoting the revitalization of neighborhoods through equitable development that mitigates the pressures of gentrification.

We are very happy to have additional resources available to us, such as the down payment assistance provided for in H.R. 1276. I would be happy to provide the committee with additional information on any of the programs mentioned above, or answer and questions related to this testimony. Thank you, once again, for asking me to testify on this important legislation.