



D.C. POLICY CENTER

The Wilkes Initiative for Housing Policy

Budget Oversight Hearing on Department of Housing and Community Development

Committee on Housing, Chairperson Robert White

Tuesday, May 12, 2026, 12:00 pm

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Good afternoon, Chairperson White and members of the Committee. My name is Emilia Calma and I am the Director of the Wilkes Initiative on Housing Policy at the D.C. Policy Center, an independent nonpartisan think tank advancing policies for a strong, vibrant and compelling District of Columbia. My testimony today focuses on the Inclusionary Zoning (IZ) program administered by the Department of Housing and Community Development (DHCD) and how reforms could reduce budgetary costs while delivering meaningfully better outcomes.

Core issues with IZ administration

DHCD's IZ program budget stands at \$1,179,000 with nine FTEs dedicated to program administration. This staff is responsible for tenant eligibility screening, connecting tenants to providers, and income certification: functions that, in every comparable federal affordable housing program, are handled by property owners. Taking these functions out of DHCD (subject to audit) will allow units to be filled significantly faster, will increase knowledge and access to affordable units,¹ and will free up funding for other programs.

The Office of the D.C. Auditor found that DHCD takes an average of 13 months to fill an IZ unit.² During that time, units sit vacant, prospective tenants wait, and property owners absorb losses. These delays are created by its administrative design and can be improved by reducing DHCD's role in case-by-case processing. DHCD centralizes tenant screening and eligibility determination at the agency level, requiring DHCD to maintain a list of interested tenants, individually verify every tenant's eligibility, and refer tenants to housing providers on a case-by-case basis. Providers report excessive paperwork, repeated document requests, and no clear timelines.

Short-term reforms: Reduce cost and improve outcomes now

1. Shift to owner-driven certification

IZ program administration should permit property owners to find candidates and conduct initial income certification and annual recertification, subject to DHCD audit. DHCD would conduct annual desk reviews of a sample of certifications and periodic audits of 10 to 15 percent of properties. This single reform would:

¹ Calma, E. Improving housing affordability by reforming Inclusionary Zoning. D.C. Policy Center. Available at <https://www.dcpolicycenter.org/publications/inclusionary-zoning-dhcd-2026/>

² One report from DHCD claimed that it took an average of 119 days to lease an IZ unit, or over three months. Inclusionary Zoning Annual Report for Fiscal Year 2024. (2024). Department of Housing and Community Development. Available at <https://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/FY%202024%20Inclusionary%20Zoning%20Annual%20Report.pdf>

However, an investigative report from the same year from the D.C. auditor reported that DHCD took an average of 13 months to fill IZ units.

Stronger DHCD Oversight Needed for Inclusionary Zoning Program to Reach Housing Goals. (2024). Office of the D.C. Auditor. Available at https://dcauditor.wpenginpowered.com/wp-content/uploads/2024/11/Inclusionary.Zoning.Audit_.11.20.24.pdf

- Reduce average lease-up time from approximately 13 months to 30–60 days
- Eliminate the backlog of units sitting vacant while DHCD processes paperwork
- Allow DHCD to reduce IZ staff from nine FTEs to a smaller audit and compliance function, yielding meaningful budget savings that can be redirected to other programs

2. Align rents and utility allowances with LIHTC standards

Maximum allowable rents³ and utility allowances⁴ for IZ should match LIHTC levels. This reform does not change affordability targets, but it would eliminate the artificial income gap that currently makes IZ units significantly more costly to operate than LIHTC units, improving financial feasibility. Units would remain affordable to households at 60 percent AMI, and more projects would be able to pencil out in future.

3. Introduce flexibility on AMI Targeting

Provided the average affordability level for set aside IZ units does not exceed 60 percent AMI, IZ units should be allowed to be set at any AMI level between 30 and 80 percent. This gives developers the flexibility to structure projects in ways that pencil out financially and serves a wider range of households.

4. Create automatic suspension triggers

There should be a clear, rules-based mechanism to suspend IZ requirements when the housing market contracts. Specifically: if quarterly multifamily permits fall below 625 units for two consecutive quarters (2,500 annually), IZ requirements would automatically suspend for one year. When permits recover above 750 units quarterly for

³ 60 percent MFI rent levels for IZ and LIHTC properties are as follows:

	IZ	LIHTC
Studio	\$1,520	\$1,722
One Bedroom	\$1,610	\$1,845
Two Bedroom	\$1,940	\$2,214
Three Bedroom	\$2,270	\$2,557

The difference between these rents will almost certainly increase when the 2026 LIHTC rents are released on May 1st.

LIHTC rent levels taken from Novogradac Rent and Income Limit Calculator, found here <https://rent-income.novoco.com/free/calculator>

IZ rent levels are taken from DHCD’s website, found here <https://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/2026%20Inclusionary%20Zoning%20Maximum%20Income%2C%20Rent%20and%20Purchase%20Price%20Schedule.pdf>

⁴ Utility allowances are what tenants are expected to pay in utilities and are taken out of rent amounts, so that housing costs do not exceed 30 percent of a tenant’s income. IZ utility allowances are more than twice that of LIHTC programs and the IZ program does not allow energy modeling to determine appropriate utility allowances. Utility allowances are as follows:

	IZ	LIHTC
Studio	\$160	\$68
One Bedroom	\$241	\$106
Two Bedroom	\$322	\$148
Three Bedroom	\$404	\$186

two consecutive quarters (3,000 annually), IZ would resume. This approach could allow some projects to become financially feasible during market downturns when IZ is most likely to be stopping projects outright.

Long-term reform: Replace IZ with better tools

Even with the short-term reforms above, IZ remains a structurally limited tool. It only produces units when private development is strong, it only reaches neighborhoods zoned for multifamily housing, and it imposes costs on market-rate tenants and developers that decrease feasibility and increase market rents. IZ should ultimately be phased out and replaced with preservation and operational subsidy programs. The savings from a restructured IZ administrative function should be directly reinvested into these tools.

Two alternative tools offer significantly better results:

1. **Preservation.** Using capital dollars or tax-exemptions paired with modest subsidies, the District can help nonprofits acquire existing rental buildings and record long-term affordability covenants. This approach can deliver units in months at a fraction of new-construction subsidy costs, and in neighborhoods where new multifamily development is rare or nonexistent.
2. **Operational subsidies and “Inclusionary Conversions.”** Rather than requiring a percentage of new construction to be made affordable, the District can pay ongoing subsidies to owners of existing buildings who agree to cap rents below market under long-term covenants.⁵ This approach creates affordable housing without depending on new construction, making each dollar more effective and each unit less disruptive to market feasibility.

Conclusion

The Inclusionary Zoning program produces far fewer units than needed, takes over a year to lease each one, imposes costs on the broader market, and requires \$1.179 million in annual administrative spending to maintain a system that would be better replaced by owner-driven certification.

The District faces an affordability crisis that can be lessened with additional housing production. The Committee can help by modernizing IZ administration, capturing the resulting savings, and redirecting them to tools that more effectively create affordable units.

Thank you for the opportunity to submit testimony.

⁵ A version of this, called Inclusionary Conversions, was first developed by the D.C. Policy Center in 2020 (Sayin, 2020a). In 2021, the city adopted this model under the Generating Affordability in Neighborhoods (GAIN) Act, passed as a part of the FY 2022 Budget, and funded it with \$5 million as a pilot project (L24-0043 Effective from Nov 03, 2021). The Executive renamed it as Cash to Covenants (DC Government, 2021).