

CHAPA POLICY SUMMARY

on State Housing and Community Development Policy



CITIZENS' HOUSING AND PLANNING ASSOCIATION

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INTRODUCTION

Solving the affordable housing crisis in Massachusetts requires strong executive leadership that keeps affordable housing a top policy priority. It also requires multiple strategies to meet a range of needs. These strategies must include reducing homelessness, increasing the supply of affordable rental and ownership housing for low and moderate income families and individuals, preserving existing affordable homes, encouraging operational efficiencies, and facilitating the production of housing for middle income households. These strategies should provide sustainable long-term solutions and use housing as a platform to build economic security and stability.

Housing policy is critical to the state's short- and long-term prosperity. It impacts every resident and the overall state of the state. The location and cost of the places we live affect our access to transportation options, jobs, recreational opportunities, health care, and healthy food. Location and cost also affect the degree to which adults and children have access to "critical opportunities needed to excel in our society, such as high-performing schools, sustainable employment, stable housing, safe neighborhoods, and health care."¹

For the state as a whole, housing policy affects whether Massachusetts can attract and house the younger workers needed to sustain and grow our economy in the coming decades as the baby boomers leave the work force. In addition, the location and quality of the housing we encourage will be critical to our ability to meet state environmental, energy, and health goals, including reducing greenhouse gas emissions by 25% by 2020, increasing the share of non-car travel by one third by 2030, and ensuring homes are safe and healthy.

Currently Massachusetts faces two major problems - inadequate supply and affordability - that restrict housing choice and limit opportunities for many residents.

Housing Production and Housing Cost Trends

Housing costs have been rising faster than incomes, especially at the lower end of the income scale. While Massachusetts rents and home prices were close to the national average in 1970 and 1980², that changed dramatically in the ensuing decades as housing production failed to keep pace with household growth, in part due to restrictive local land use regulations. Massachusetts ranked 47th out of 50 states in its rate of increase in housing between 2000 and 2009 (4.8%)³ and ranked

sixth lowest in per capita housing production between 2000 and 2010.⁴ While our rank on net additions has risen slightly in the past three years (to 41st out of 50 for 2010-2013), we are not keeping pace with population growth. The state housing supply grew by just under 5,300 units (0.2%) between 2010 and 2013, while the state population grew by over 145,000 (2.2%).⁵

Today, our rents and home prices are some of the highest in the nation. The National Low Income Housing Coalition ranks Massachusetts as the 7th least affordable state for renters. The combined cost of housing, transportation, and energy is also high. We have the oldest housing stock in the nation and high energy costs. While we have a stronger public transportation network than many states, it faces crucial funding challenges.

Our high housing and energy costs particularly disadvantage lower income households, a group that has grown as income inequality has grown in Massachusetts. Massachusetts had the second largest increase in income inequality among the 50 states between 1979 and 2010 and now ranks 8th in the nation in inequality.

High rents make it difficult or impossible for the very poorest households, including persons with disabilities, to become and stay housed and cover basic needs without housing assistance (and, in some cases, supportive services). This challenge has led to rising homelessness and a 40% increase in the number of very low income renters who are housed but pay more than half their income for housing.



- Just over 19,000 men, women, and children were homeless in January 2013, up 9% from the January 2012 one day count, even as the national total fell by 3.7%. This gave us the 7th highest incidence of homelessness among the 50 states. Homeless families accounted for 64% of the state's homeless population, compared to 36% nationally. As of late May 2014, there were about 4,600 families in shelters, hotels and motels.
- Another 205,000 very low income households have serious affordability problems, paying more than half their income towards housing, an increase of 58,000 households (40%) since 2000 and most (158,000) are "extremely low income" with incomes below 30% of area median income (about \$25,000 for a household of 3).

Would-be homeowners also face challenges. High rents, high home prices, and tightening credit practices block access to homeownership and the opportunity to build housing stability and accumulate the equity people have traditionally relied on for retirement and college. This puts further pressure on rents as well. This dynamic has particularly hurt black and Hispanic households, historically excluded from opportunities

to build equity through ownership and more recently victimized by predatory lending and foreclosures. High housing costs and housing discrimination can have life-long effects, especially when they force people to live in neighborhoods with poorer school systems, increased crime, and more health hazards.

The new Administration can address these challenges with the following strategies:

- Work with communities to develop multi-family housing;
- Strengthen the collaboration among state agencies so that their policies support, rather than hinder, the development of accessible, healthy housing and neighborhoods, promote access to income supports and services, and also meet fair housing, environmental, energy, and equity goals, including access to quality child care and schools;
- Confront local barriers to affordable housing production and incentivize and reward communities that dismantle such barriers; and
- Set housing goals and report regularly against them.



Where does MA fall on housing affordability?

Even though MA is a leader in progressive housing policy, restrictive local zoning and growing income inequality continues to drive up housing costs and affordability problems.



41st in rate of increase in housing

between 2010 and 2013
Census Bureau

6th lowest in per capita housing production

between 2000 and 2010
Census Bureau



7th least affordable state for renters

National Low Income Housing Coalition

8th in the nation in income inequality



7th highest incidence of homelessness

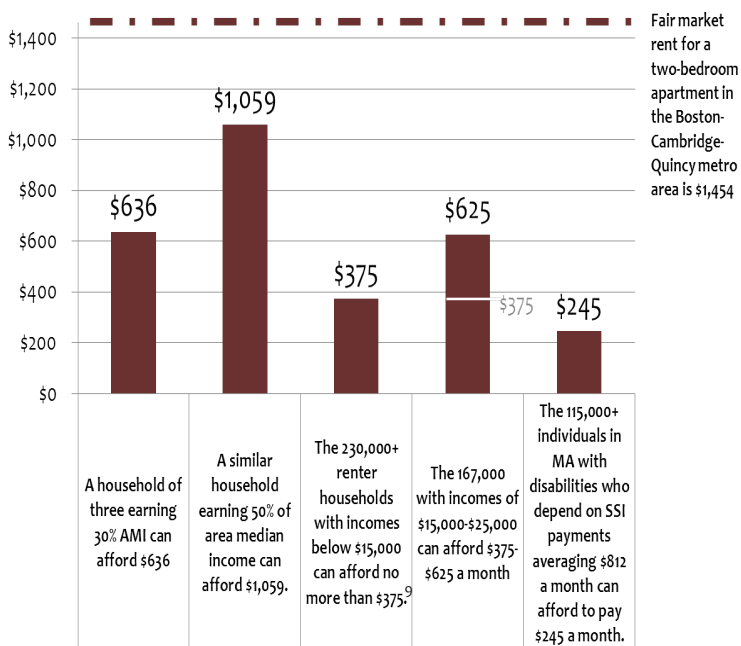
as of January 2013

HOUSING NEEDS IN MASSACHUSETTS

A January 2014 report from the Metropolitan Area Planning Council (MAPC) found that 435,000 new homes, including 268,000 multifamily homes, are needed by 2040 in the Metro Boston area alone in order to grow our economy and remain competitive with other states. The housing shortage limits businesses' ability to attract talented workers to the Commonwealth and threatens our economic growth. Of the five fastest growing job sectors in Massachusetts, only three provide workers with enough income to afford market rate rent in Massachusetts. Only one of these occupations allows workers to afford homeownership.⁶

The housing shortage and high housing costs affect households across income levels. The 2013 statewide median single family home price (\$320,000) is 60% higher than the 2000 median (\$200,000) and the 2013 median condominium sale price (\$296,000) is 98% higher.⁷ A recent Harvard University study found that restrictive local land use and building requirements have played a major role in driving up housing prices.⁸ High housing costs hit those with low incomes the hardest. According to HUD's estimates, almost 653,000 low and moderate-income households in Massachusetts pay more than 30% of their income towards housing. Of these, 383,000 pay more than half (215,000 renter households and 168,000 owners). Among the severely burdened renters, almost all (96%) are very low income and most (158,000) are extremely low income.

How much rent can low and moderate income households afford?



All of these households are unlikely to find an apartment they can afford in the current market, where the fair market rent for a two-bedroom apartment in the Boston-Cambridge-Quincy metro area is \$1,454. The challenge is even greater when a household needs accessible features or supportive services.

Affordability is a problem for a growing number of households in Massachusetts, as incomes have not kept pace with housing costs. According to the most recent Census estimates (2007-2011):

- Almost half (49%) of the state's 920,000 renter households (452,500) are very low income, with incomes below 50% of area median income. Of these, 205,000 pay over half their income towards housing, up 58,000 (39.5%) from 2000. Most (77%) of these severely burdened households (158,000) are extremely low income.
- About 125,000 of the state's 1.6 million homeowner households are also very low income and severely cost burdened (125,000), up 41% (37,000) from 2000.¹⁰
- Another 4,300 families and 6,600 individuals were homeless as of January 2014.¹¹

Need for housing assistance is likely to continue to grow in the next four years absent new state policies, as federal housing assistance has been shrinking steadily in recent years and the incomes of households in the bottom fifth of the state's income are falling further and further behind housing costs. As a result, only about 17,000 households a year can be assisted through turnover of units and vouchers and new additions to the inventory and some of the turnover units are restricted to specific populations (e.g. the elderly) or may not be affordable to the lowest income renters.¹²



THE CURRENT AFFORDABLE INVENTORY

State and federal programs currently assist an estimated 285,000 Massachusetts households.

- About 220,000 live in income and price restricted units (212,000 rental; 8,000 ownership) created with state, federal or local funds or indirect subsidies such as density bonuses or donated land.¹³
 - › Comprehensive permits were used to develop over 32,300 of these units (27,900 rental and 4,400 ownership), including about 6,200 units built without state or federal funding.
- About 65,000 households with tenant-based rental assistance live in other private housing.¹⁴

Current inventory in Massachusetts:

- About 36,000 federal public housing units
- About 45,600 state public housing units
- About 63,500 privately owned developments with project-based rental assistance
- About 23,000 created by other older federal and state housing programs
- About 39,600 units created under newer (post-1986) programs, including about 8,500 built without state or federal funds, using CPA, inclusionary zoning, or comprehensive permits
- About 12,300 beds in community based residences for DDS and DMH clients or other persons with disabilities

Trends

The shift away from deep subsidy programs, combined with lower overall funding levels and a generally restrictive zoning environment, is changing the face of affordable housing.¹⁵ It has lengthened the time required to develop new units, especially in areas where development costs are high or when deeper affordability is desired, as developers must invest considerable time and money in lining up multiple funding sources (often 7 or more). Because fundable projects outnumber available resources, they may have to wait through several funding rounds (held once or twice a year) to secure an award.

Recent Production and Rental Assistance Trends

The state supply of affordable units and vouchers has risen only slightly in recent years, as additions to the subsidized inventory have been partially offset by losses.

- The net gain in affordable units in the subsidized inventory was about 23,000 between 2001 and 2014. Almost half of the gain was due to an increase in community residence beds reported (about 11,000); other rental units increased by about 9,000 and affordable ownership units by about 3,000.
- Section 8 Housing Choice Vouchers funding has fallen by 1,400 vouchers over the last two years due to sequestration cuts for which funding has not been restored.
- State-funded rental assistance vouchers increased by about 1,800 (2003-2014) to just over 8,200, through new funding for the MRVP in 2013 and 2014; this is approximately 10,000 fewer vouchers than the historic high of nearly 20,000 state rental subsidies in 1990.

Balancing New Production and Preservation

Cuts in federal and state funding for affordable housing since 1990 have made it increasingly difficult to maintain the current supply of subsidized units, let alone expand it to address the unmet need. Yet many of the over 100,000 units in the older private and public housing investment will need state support to continue as safe, quality affordable housing.

- Funding is needed to maintain and modernize the existing public housing inventory, mostly built 35-60+ years ago, and address the backlog of capital needs that has accrued due to underfunding of operating subsidies and modernization funds. Financing these improvements is likely to require both state and federal resources.
- The private inventory faces an additional threat. Most older subsidized developments were originally financed with 15-40 year use-restrictions. As mortgage restrictions and rental assistance contracts reach the end of their term, owners can opt out or choose to continue to maintain affordability. Some choose to opt out, resulting in the loss of over 7,300 affordable units since 1995. Others have entered very short-term renewal contracts (1-5 years), meaning they can revisit their decision frequently. Restrictions or subsidy contracts on over 9,000 units will expire in 2015 alone. In strong markets, funding is needed to persuade owners to extend affordability or to enable a nonprofit to buy the property. Owners who choose to extend affordability often also need financing for capital upgrades and energy efficiency improvements.

THE ROLE OF FEDERAL FUNDING IN STATE HOUSING POLICY AND PRODUCTION

Federal housing funds and low income housing tax credits (LIHTC) have been critical to the development of the state's affordable housing, funding 95% of the tenant- and project-based rental assistance vouchers in use, as well as over 40% of the public housing units in Massachusetts.

However, federal support for new affordable housing has been falling since FY2010, due to caps set by Congress in recent years on total federal discretionary spending and mandatory across the board cuts in federal FY2013 ("sequestration").

Major federal housing resources include the following:

- **Section 8 Housing Choice Voucher** (tenant-based assistance) – HUD contracts with DHCD and local housing authorities to administer about 77,000 tenant-based vouchers, including about 20,000 administered by DHCD and about 57,000 administered by 119 local housing authorities. There are currently over 90,000 households on DHCD's statewide waiting list facing a long wait for assistance because Congress has authorized almost no new vouchers in recent years. In addition, most housing authorities were unable to re-issue turnover vouchers in FY2013, due to funding cuts under sequestration.
- **Section 8 Project Based Rental Assistance** – HUD funds project-based rental assistance covering about 65,000 units through direct contracts with owners of about 800 rental developments
- **Federal Public Housing Operating Subsidies and Capital Grants** – HUD provides direct funding to 68 local housing authorities to operate about 35,400 units of federal public housing (including 3,700 former state public housing units transferred in the past few years under a special provision of the 2008 federal stimulus bill). Congress banned any increases to the federal public housing stock in 1998 and the count has been falling since.
- **HOPE VI** - Though new grants are no longer being made, this program provided very large grants to several local housing authorities to transform large public housing developments into mixed-income communities in Boston, Holyoke, and Taunton.
- **Community Development Block Grants (CDBG)** – annual formula grants (\$92.5 million total in FY2014) made directly to 37 larger "entitlement" cities and towns and to DHCD. Communities can use the funds for any of a wide range of

housing and community development activities and services but at least 70% of the beneficiaries must be low and moderate income. State grants are redistributed competitively for eligible activities in non-entitlement communities.

- **HOME Block Grants** – annual formula grants (\$24.8 million total in FY2014) made directly to larger cities, local consortia of cities and towns, and DHCD for housing activities, including rental and homeownership programs.
- **HUD Continuum of Care Homeless Assistance Grants** – annual HUD grants (\$68 million in FY2013) to 33 local and regional networks of homeless housing and service agencies called Continuums of Care (CoCs). The grants fund ongoing shelter, supportive service, and housing programs for homeless families and individuals and as well as the development of new transitional or permanent housing.
- **Section 202 Housing for the Elderly** – grants to develop housing for very low income frail elders (62+), together with contracts for rental assistance (no new funding since FY2011).
- **Section 811 Housing for Persons with Disabilities** – allocations of project-based vouchers to the State to provide units for persons with disabilities in new and existing subsidized rental housing (e.g. projects built with low income housing tax credits). Prior to FY2013, the program funded direct development (construction grants plus project based rental assistance) through grants to nonprofits.



- **Lead Paint/Healthy Homes** – Grants to highest-risk municipalities to remove lead paint from local homes. Healthy Homes funds removal of other health hazards, mold, allergens, carbon monoxide, pests and dust mites that exacerbate asthma and other health problems.

Federal Housing Resources Controlled by the State

DHCD plays an important role in shaping the distribution of millions of dollars of federal affordable housing resources, including rent subsidies and grants, and tax-credits. The decisions it makes regarding the use of the resource influence the number of units assisted, the locations and types of developments built or preserved, and the populations served. Major resources over which the State has some discretion include the following:

- Federal low-income housing tax credits (LIHTC)
- Tax-exempt private activity bonds
- HUD block grant funding distributed to smaller communities through the Community Development Block Grant (CDBG) and HOME programs
- 20,000 Section 8 tenant-based housing choice vouchers – DHCD decisions regarding the rent levels it will subsidize, the extent to which it will use its funds to create project-based vouchers, and the priorities and preferences it establishes for distributing vouchers all have an important impact on which households among the many on its waiting list will be assisted. As of July 2013, it had a waiting list of 90,285 households.

Federal Low Income Housing Tax Credits (LIHTC)

The federal LIHTC gives investors tax breaks in exchange for providing equity to housing developers. The money it raises offers the deepest subsidy for affordable housing development. There are two types of credits, often referred to as 9% and 4% credits.¹⁶

It is up to each State to decide how it will allocate its credits each year. States must publish an annual Qualified Allocation Plan (QAP)¹⁷ detailing their funding priorities and award process and hold a public hearing to accept comments before finalizing the plan. DHCD is the state agency responsible for this. *Because the tax credits are so integral to the financing process for rental housing production and preservation, the funding priorities and criteria established in the QAP function as the policies for state rental housing production.* The 2014 QAP reserved:

- 50% of the credit awards for housing production (creation of additional units through new construction or substantial rehabilitation);
- 30% for preservation projects; and
- 20% for the redevelopment of large public housing developments under HUD’s HOPE VI program.

Production projects also have to meet at least one of the following criteria:

- At least 20% of the units must be reserved for extremely low income households, with a focus on homeless or at-risk households, and include tenant services;
- The project must have the potential to revitalize a distressed or at-risk neighborhood or stimulate investment (includes Gateway Cities); or
- The project must produce family housing in low poverty neighborhoods that offer access to jobs, transit, and good schools (at least 65% of units must have 2+ bedrooms and at least 10% of total units must have 3 bedrooms).

In part because it is used for preservation projects and in part because relatively few applications are received for suburban projects, a high percentage of LIHTC projects are in neighborhoods with relatively high poverty rates (20%+).



Recent Trends in HUD Funding for Affordable Housing Development

Original Funding Program ³	Grant/ Allocation Value (millions)		Trend
	2014	2013	
LIHTC – 9%	~131-138		Rising by \$3-4 million a year in value
LIHTC – 4%	Varies		
HOME Annual Grant	25.9	24.8	Down \$22 million (46%) from FY2010 amount.
To DHCD	7.35	6.6	Down \$7.5 million (50%) vs. FY2010 level
To Cities/Local Consortia	18.55	18.2	Down \$14.7 (46%) vs. FY2010 grant
Community Development Block Grant (CDBG)	92.5	93.9	Rising and falling by small amounts in recent years
To DHCD	29.3	29.4	
To Entitlement cities	63.2	63.2	
Section 202 Housing for the Elderly	0	0	No new units since FY2011- construction grants previously averaged about \$13.5 million (90 units) a year
Section 811 Housing for the Elderly	100 vouchers	0	No funding for new hard units (Massachusetts awards in past averaged 10 units a year). HUD decided to provide all new funding as project-based vouchers (MA received 100 in FY2013)
HOPE VI	0	0	No new funding – Congress stopped funding



THE ROLE OF STATE FUNDING IN HOUSING PRODUCTION AND PRESERVATION

While State funding for housing assistance is much lower than federal funding,¹⁸ state funds are critical to the development of affordable units and provision of rental assistance, providing gap funds to supplement federal grants and loans and to fund activities not funded by HUD. State funds today play an especially important role in addressing affordability problems in light of declining federal resources. This section addresses the State Low Income Housing Tax Credit, the capital budget, operating budget, and other state-created resources for housing.

State spending on housing programs fell dramatically after the state went into recession in 1990, and remained low through FY2006. While increases since FY2007 have begun to close the gap, spending is still below what it was 19 years ago for some programs after adjusting for inflation.

Overview

In 2015, DHCD's budget is likely to be around \$570 million: an operating budget of \$379.5 million and a \$190.5 million capital budget.

Other important state resources include MassDevelopment's Brownfields Redevelopment Fund (\$25 million) and the state Historic Rehabilitation Tax Credit (\$50 million a year). The State also supports local housing initiatives through the Community Preservation Trust Fund.

State Low Income Housing Tax Credit

The state low income housing tax credit program raises money for affordable housing production by providing a tax credit for equity investments. The Legislature created it in 1999 to supplement the federal program, since the demand for federal credits far exceeds the amount allocated to the state.

State credits are limited to developments receiving federal low income housing tax credits that are placed in service on or after January 1, 2001, and remain affordable for at least 45 years. Applications for state credit allocations are taken at the same time as applications for federal low income housing tax credits and are allocated using the same criteria. DHCD awards state credits in lieu of part of the federal credit the project would otherwise receive and thus expands the total credit allocation available. State credit awards are based on the appli-

cant's ability to use them (i.e. investors have sufficient state tax liability to make state credits usable).

DHCD is currently authorized to award up to \$20 million in state credits for new projects each year through 2018, and \$10 million a year thereafter. Because credits are taken annually for 5 years, each year's allocation is worth \$100 million (\$20 million a year over 5 years) and will raise about \$70 million in equity, assuming that \$1 dollar in credits sells for at least 70 cents.

State Capital Budget Programs for Housing

The FY2015 capital budget (\$190.5 million) includes nine programs for the creation and preservation of affordable housing, all funded through the sale of state bonds. The recent Housing Bond bill authorized the expenditure of \$1.4 billion over five years (\$271 million/year, on average) on housing programs each year.¹⁹ The Governor's capital plan for FY2014 and FY2015 has held spending at only two-thirds of that level (\$179.5 million in FY2014 - the same as in FY2013 - and \$190.5 million in FY2015). Raising the FY2015-FY2018 spending to an average of \$294 million/year to spend out the full bond bill authorization would provide a 64% increase over the 2014 budget, help address the backlog of public housing capital needs, enable investments in energy improvements, significantly increase the number of units created and preserved, and increase the number of home loan modifications made.

Some housing funds can only be used for housing units for specific populations (e.g. persons with disabilities) or housing types (e.g. public housing). Others are more flexible.



Most projects use more than one bond program; many also use state and/or federal tax credits, federal HOME funds, historic rehabilitation tax credits, and local Community Preservation Act (CPA) funds.

	2008 Bond Bill 5-Year Authorization (millions)	2009-2013 Capital Spending Plan (millions)	2013 Bond Bill 5-Year Authorization (millions)	2014-2015 Capital Plan (2 year total) (millions)
Public Housing*				
Public Housing Modernization/Redevelopment**	\$525	\$466	\$525	\$180
Public Housing Demonstration Program	50	0	50	0
State Rental Voucher Management System, PH Central Wait List	0	0	0	1.8
Subtotal	575	466	575	181.8
Housing per Persons with Disabilities				
Home Modification Loan Program	50	20	55	10.5
Facilities Consolidation Fund (FCF)	40	37.5	47	19.1
Community Based Housing (CBH)	30	30	38	10
Subtotal	120	87.5	140	39.6
All Other				
Affordable Housing Trust Fund (AHTF)***	195	175	280	70
Housing Stabilization and Investment Trust Fund (HSF)	125	75	135	34.2
Capital Improvement and Preservation Trust Fund (CIPF)	100	25	100	10
Housing Innovations Trust Fund (HIF)	75	42	80	20.4
Commercial Area Transit Node Housing Program (CATNHP)****	30	11.5	45	4
Affordable Housing for Priority Populations*****				10
Subtotal	525	328.5	640	148.6
Early Education and Out of School Time Capital Fund	0	0	45	4
TOTAL			1,400	374

* State-funded public housing inventory declined by 8% due to federalization of 3,876 units in 2010-2011

** Includes \$5 million a year set-aside from the Affordable Housing Trust Fund

*** AHTF totals are net of \$5 million a year set-aside for public housing; the 2009-2013 spending total Includes \$24.5 million in non-bond funds provided by MHFA and MHP in 2009

**** Includes Transit-Oriented Development funding (become part of MassWorks in 2012)

***** FY2014 Capital Plan gave DHCD flexible authority to use \$10 million from multiple bond programs



State Public Housing Modernization (\$500 million²⁰)

– Provides grants to housing authorities for renovation, redevelopment, accessibility and energy efficiency improvements, and to create community facilities (e.g. day care, learning centers). All authorities receive minimum annual “formula funding” under a program begun in June 2010 that provides allocations in predictable increments over 5 years to enable authorities to prioritize and schedule their capital work. DHCD has also made additional funding available each year for specific initiatives on a competitive basis.

State Public Housing Demonstration Program

(\$50 million) – First authorized in the 2008 bond bill at \$50 million, but not spent, this allocation is intended to be part of a larger 5-year public housing innovation demonstration testing new management and capital investment approaches at a select number of authorities. Public housing reform legislation signed into law in August 2014 creates a pilot program for regional housing authorities that will need this funding in order to form strong regional entities.

Affordable Housing Trust Fund (AHTF)

(\$305 million) – AHTF is the most flexible bond bill program. It supports the creation or preservation of housing for persons with incomes up to 110% of area median income and can be used for ownership and rental programs and can provide a variety of types of assistance including low and no interest loans, grants, subsidies, and credit enhancements for affordable and mixed-income housing, including, but not limited to:

- Capital grants and deferred payment loans for new construction, rehabilitation, or acquisition of housing, including permanent housing or transitional housing units for homeless families and individuals;
- Projects making affordable housing more accessible to senior citizens and people with disabilities;
- Matching funds for municipalities that sponsor affordable housing initiatives;
- Down payment and closing cost assistance for first-time home buyers, and costs for Massachusetts Housing Partnership’s ONE Mortgage program;
- Matching funds for employer-assisted rental and homeownership programs;
- Repair, rehabilitation, and modernization of public housing (at least \$5 million a year must be spent for this); and
- Preservation of developments that are or were subject to prepayment of a state or federally assisted mortgage or have expiring project-based rental assistance under Section 8.

Housing Stabilization and Investment Trust Fund

(HSF) (\$135 million) – HSF is also flexible but is more income targeted than AHTF. It can be used for a range of activities to create or preserve affordable ownership and rental housing, including interest subsidies for first time buyers. *At least 50% of beneficiaries must be households at or below 80% of AMI and 25% of funds must be used for extremely low income (ELI) households.* Like the 2008 bond bill, the 2013 bill includes a \$5 million set-aside to preserve elder (60+) housing and a \$10 million set-aside to subsidize homeownership in weak markets.

Capital Improvement and Preservation Trust Fund

(CIPF) (\$100 million) – CIPF provides deferred payment loans to preserve and improve existing developments at risk of losing affordability due to expiring use restrictions or capital needs. At least half of the units in a project must be affordable and reserved for households at or below 80% of AMI and at least 5% must be affordable to households at or below 50% of AMI.

Housing Innovations Trust Fund (HIF)

(\$80 million) – HIF was created to support the development and preservation of “alternate forms of housing,” usually with supportive services. Reducing homelessness is a priority. Types of projects include single person occupancy (SPO) housing, special needs housing, domestic violence shelters, and permanent and transitional housing for the homeless. *At least 25% of funds must be used for projects that preserve or create units for households less than 30% area median income.*



Commercial Area Transit Node Housing Program (CATNHP) (\$45 million) – CATNHP supports planning grants, environment assessments, and deferred payment loans to create housing and mixed use projects in neighborhood commercial areas. Like the 2008 bond bill, the 2013 bill includes \$15 million for transit oriented development. Funds can be used for housing subsidies as well as for the costs of developing the commercial portion of a project, capped at the lower of 25% of commercial development costs or \$1 million. *At least 50% of units in assisted projects must be affordable at 80% area median income.*

Facilities Consolidation Fund (FCF) (\$47 million) – Created in 1993, FCF helps fund the development of community based or supportive housing for Department of Mental Health (DMH) and Department of Developmental Services (DDS) clients, providing deferred payment loans for up to 50% of development costs.²¹ DMH and DDS provide case management and must pre-approve projects. Housing models include units integrated in larger affordable developments, small-scale group homes (e.g. a single family home with 4-5 bedrooms) and apartments. The 2008 and 2013 bond bills each include \$10 million for a pilot program for homeless individuals with mental illness. To date, 1,630 units have been developed under FCF.

Community Based Housing (CBH) (\$38 million) – Created in 2004, CBH provides loans for the development or redevelopment of *integrated* community-based or supportive housing for persons with disabilities who are institutionalized or at risk of institutionalization but ineligible for FCF. The program is part of the State's effort to comply with the 1999 U.S. Supreme Court *Olmstead* decision requiring states to provide housing for persons with disabilities in the most integrated setting appropriate to their needs. CBH provides funds to developers to set aside units in affordable housing developments that include accessibility and visit-ability features; usually no more than 10% of the units in a development are set aside for persons with disabilities. As of January 2014, CBH has created 252 units.²²

Home Loan Modification Program (HMLP) (\$55 million) – Created in 1999, HMLP provides deferred payment loans, loan guarantees, or interest subsidies to help fund home modifications for elders, individuals with disabilities, and families of children with disabilities. Homeowners and landlords who rent to qualifying tenants are eligible for assistance. Loans are no- or low-interest, depending on the borrower's income and assets. Types of work financed include ramps, bathroom and kitchen modifications, and wheelchair lifts. Through 2013, the program has fund-

ed 1,942 loans (average \$22,700), most at zero interest (80%); repayments are recycled to make new loans. Demand has been rising and is expected to continue to rise as the state ages.

State Operating Budget for Housing

The major housing items for FY2015 in the State Operating Budget include:

- **Emergency Assistance (EA) (\$140.3 million)** – emergency shelter, including hotel and motel placements, and services to homeless pregnant women and families with children (\$140 million). DHCD's budget also includes \$5.9 million for staff and other administrative costs.
- **Homeless Individuals (\$42.9 million)** – Emergency shelters, day programs and services to homeless individuals.
- **Home and Healthy for Good (\$1.8 million)** – Home and Healthy for Good is a Housing First program that provides permanent supportive housing with services for chronically homeless individuals. Started in 2006, the program has provided housing to over 723 people, only 25 of whom are known to have returned to homelessness. The program has produced significant public cost savings. As of June 2014, it was assisting 255 persons.
- **Tenancy Preservation Program (TPP) (\$0.5 million)** – TPP prevents homelessness among people with disabilities by working with landlords and tenants and providing clinical consultation services to the Housing Court. It has stabilized 87% of households served with an average cost of \$2,950 per case.
- **HomeBASE (\$25.96 million)** – HomeBASE is a homelessness prevention program for families that offers an alternative to shelter by providing stabilization services and up to \$6,000 (an increase of \$2,000 over FY2014) in financial assistance to pay rent, utility bills, security deposits, and other expenses. The assistance allows families to stay in their homes, move to new housing, or live with another family. In the first six months of FY2014, HomeBASE served nearly 2,900 families. Families exiting shelter can also access \$2,000 from the Housing Preservation and Stabilization Trust Fund until the funding runs out. It is hoped that many more families will be able to use these resources to shorten shelter stays.

- **Residential Assistance for Families in Transition (RAFT) (\$11 million)** – RAFT is a homelessness prevention program that can provide up to \$4,000 per household to help those who experience job loss or other challenges to maintain stable housing
- **Secure Jobs Pilot (\$0.5 million)** – This funding will support a pilot program that provides job training and job search assistance to low-income families who receive assistance through EA, HomeBASE, MRVP or RAFT.
- **Housing Preservation and Stabilization Trust Fund (HPSTF) (\$3 million)** – HPSTF, created by the Legislature in FY2014²³, provides DHCD with flexibility to fund new initiatives, create housing and provide resources to respond to urgent needs and prevent homelessness. DHCD spent the \$10 million provided in FY2014 to create supportive housing units (\$7 million), to increase funding for HomeBASE (\$2 million) and to fund the Secure Jobs Initiative (\$1 million).
- **Housing Services/Housing Consumer Education Center (HCEC) (\$2.14 million)** – The program funds the operation of Housing Consumer Education Centers by nine regional housing agencies who function as part of the state’s delivery system for housing programs such as RAFT and HomeBASE. HCEC staff meet with families in immediate housing crises to assess their circumstances and refer them to available resources and also offer education for tenants, landlords, and homeowners. During the first half of FY2014, they assisted over 31,300 households, including over 5,400 at risk of homelessness or seeking shelter and over 7,800 in search of affordable housing.
- **Massachusetts Rental Voucher Program (MRVP) (\$65 million)** – First established in the 1960s, this state-funded rental assistance MRVP is the most effective tool to immediately address the overwhelming need to help people who are homeless or at-risk of homelessness secure homes they can afford. MRVP funds both tenant-based (mobile) and project-based vouchers. As of March 2014, it was assisting 6,245 households (3,185 with tenant-based and 3,060 with project-based assistance).
- **Alternative Housing Voucher Program (AHVP) (\$3.55 million)** – Created in 1995, as part of legislation that capped the share of non-elderly (<60) disabled persons who could live in elderly/disabled state public housing developments, this program funds tenant-based assistance for approximately 412 non-elderly disabled households. When first

created in 1995, it was funded at \$4 million and served 800 households. Together with MRVP, AHVP could further the Commonwealth’s goal of providing persons with disabilities with choices to live in community-based housing and avoid more costly institutional living.

- **DMH Rental Subsidies (\$5.125 million)** – Provides rental assistance (primarily tenant-based) for DMH clients - currently serves about 1,250 households
- **Public Housing Operating Subsidies (\$64.035 million)** – Funds operating subsidies for the 45,600 unit state public housing system, to reduce the gap between rent revenues collected and the funding level needed to maintain the stock; also funds utility costs.

Other State-Created Resources for Affordable Housing

Over the years, the State has created a housing finance agency and several trust funds to support affordable housing development using resources other than State tax revenues.

The Community Preservation Trust Fund was established in 2000 to provide state matching funds to communities that agreed to adopt a local property tax surcharge to support open space, affordable housing, and historic preservation activities. The state match is funded through a surcharge on Registry of Deeds filings. At least 10% of the funds must be used for affordable housing (for households with incomes of up to 100% of area median income).

The Smart Growth Trust Fund was created in 2004 to fund incentive payments to communities that adopt “smart growth” overlay zoning districts (“Chapter 40R”) to encourage higher density, mixed income housing development.

The Brownfields Redevelopment Fund was created in 1998 to fund the assessment, clean up, and redevelopment of contaminated sites. Since its creation, more than \$65 million has been awarded for the assessment or remediation of brownfields sites in 106 Massachusetts cities and towns. Most sites are in critical locations near transit and other infrastructure. Redeveloping these sites revitalizes distressed areas and advances the state’s desire to promote smart, sustainable development. Over the last six years, the Fund supported the creation of 4,000 homes and 2,600 construction jobs.

The state Historic Rehabilitation Tax Credit is an important resource for funding the creation of new housing units through adaptive reuse of historic properties, including mills, many located in Gateway Cities. It can fund 20% of qualified rehabilitation costs and is usually combined with federal historic rehabilitation credits. Annual credit award authority is \$50 million a year. Unlike other state housing credit resources, these credits are not awarded by DHCD through its coordinated funding process but rather are awarded by the Secretary of State through the Massachusetts Historic Commission.

The Housing Development Incentive Program (HDIP)²⁴, started in 2012, offers two tax incentives for the development of market rate housing in locally designated zones in 26 “Gateway cities.”²⁵ Development must primarily involve substantial rehabilitation. Developers only apply a state tax credit of up to 10% of the qualified substantial rehabilitation expenses for the market rate units. Annual state credit authority, initially capped at \$5 million a year, was raised to \$10 million in August 2014 legislation.²⁶ The locality must also offer a real estate tax exemption of 10-100% of the increase in property value for 5-20 years. At least 80% of the housing must be market-rate.

Gateway Cities Transformative Development Fund is a newly authorized \$16 million fund, created in the August 2014 Economic Development bill²⁷ and administered by MassDevelopment. It can provide equity investments and funding for technical assistance to support residential, commercial, industrial and institutional development in gateway cities for projects that have the potential to transform a downtown or urban neighborhood by catalyzing private investment. Some of the Fund will be used to support the creation of collaborative work spaces in downtown areas.



THE ROLE OF ZONING REFORM IN MEETING THE COMMONWEALTH'S HOUSING NEEDS

Zoning Reform/Incentives to Facilitate Smart Growth and Multifamily Housing Development

Zoning restrictions in our home-rule state are a key reason for the high cost of housing and limited choices for current residents. In addition, as stated in the State's [Planning Ahead for Growth Initiative](#), "planning ahead for job and housing growth is critical to state prosperity and its quality of life." To address both current and longer term needs, the State set a 10,000 unit per year multifamily housing (2+ units) production goal in 2013.

Incentives to Facilitate Smart Growth and Multifamily Housing Development

The state has multiple tools and incentives outside Chapter 40B to encourage communities to adopt zoning that addresses housing, economic development, and open space goals that are consistent with smart growth, including:

- State Sustainable Development Principles to guide land use policies;
- Executive Office of Housing and Economic Development (EOHED) programs to help municipalities identify and develop "promising places for growth", through help with zoning and permitting, infrastructure costs (through the MassWorks program), and marketing to firms and developers;
- Encouraging housing development that meets the needs of younger workers through a new [policy](#) requiring that at least 10% of units in new family housing have 3+ bedrooms if using state resources or a comprehensive permit or for the affordable units to count on the Subsidized Housing Inventory;
- A Housing Production Plan regulation that encourages municipalities to plan for affordable housing and potentially obtain exemptions from comprehensive permit appeals;
- Chapter 40R that provides upfront payments to communities that create smart growth zoning overlay districts as well as school cost insurance under Chapter 40S; and
- The Compact Neighborhoods Policy that gives municipalities a preference for state infrastructure funding if they have zoning districts requiring 2-4 units per acre density and 10% affordability.

Zoning Reform

Even with these tools, state housing and smart growth goals are unlikely to be realized without zoning reform. Many communities lack as-of-right multifamily zoning²⁸ and continue to resist compact development and family housing. In addition, the state's Zoning Enabling Act (Chapter 40A) must be updated to make land use decisions more predictable and make it easier to zone for affordable housing.

In June 2014, after years of effort, the Legislature's Joint Committee on Municipalities approved a bill to update Chapter 40A. Although the bill was not voted on by the Legislature before the end of formal sessions, the bill included important updates to the state's zoning laws. These changes included making it clear that tools such as inclusionary zoning are authorized and allowing communities to opt-in to a system to create zoning districts that meet defined housing goals and smart growth objectives in exchange for additional controls on development in other areas of the municipality. The bill would also allow impact fees for a defined set of capital costs. These are all important steps in updating and modernizing our state zoning policies.

Zoning changes remain critical, particularly to produce multifamily housing, in order to meet the needs of the Commonwealth and grow our economy. Requiring municipalities to zone for multifamily housing will remove one of the biggest barriers to meeting our housing needs. Other recommendations for increasing multifamily housing production include refining the state's housing production goal and target its strategies so that they are consistent with regional variation and growth projections and participating in the Census Bureau's [Longitudinal Employer Household Dynamics \(LEHD\)](#) program, which provides important information on the numbers and types of jobs available by geography. Currently, Massachusetts is the only non-participating state in the nation.

The Affordable Housing Law (Chapter 40B)

The Affordable Housing Law, Chapter 40B, is a state law enacted in 1969 to make it possible to develop affordable homes in cities and towns that have restrictive zoning. It applies to every municipality except Boston and has played a critical role in expanding the supply of affordable housing in suburban and rural areas. Massachusetts voters voted decisively (58% in-favor v. 42%

opposed) against a proposal to repeal the law in November 2010, including a majority of the voters in 275 cities and towns.

Chapter 40B makes it possible to create affordable housing, often in mixed-income developments, in municipalities with restrictive zoning, especially those where less than 10% of the year-round housing is subsidized. Under the statute, developers of affordable housing (projects with at least 20-25% of the units being affordable) can apply to the local Zoning Board of Appeals for a single “comprehensive permit” rather than applying to multiple boards. Additionally, developers can request waivers of specific zoning and other land use restrictions. In communities where less than 10% of the housing is subsidized, developers can appeal an unfavorable local decision to the State Housing Appeals Committee.

To date, over 62,000 homes in over 1,200 developments have been built or are currently under construction using comprehensive permits, including over 44,000 rental units and about 18,000 ownership units. Over half (33,000+) are reserved for households with incomes below 80% of the area median.

The law has been particularly important outside of cities. Projects using comprehensive permits accounted for nearly 80% of all new affordable housing units in rural and suburban communities in Massachusetts (excluding group home beds and homeowner rehab loans) produced between 1997 and 2010.

Chapter 40B has also helped make affordable housing more available throughout the Commonwealth. In 1972, 69% of the state’s subsidized housing was located in the 15 most populous cities and towns. Over 200 communities had no subsidized housing at all.²⁹ Today, those 15 cities and towns are home to 48% of the inventory and only 39 towns have no subsidized housing – almost all of which are small rural towns (home to less than 1% of the state’s population in 2010).

As of May 2014, 52 of the 351 cities and town in Massachusetts were appeal-proof, meaning developers cannot appeal a local decision on a comprehensive permit to the state Housing Appeals Committee. Of these, 42 have met the 10% goal, up from 23 in 1997 and three in 1972.³⁰ Another six have two-year exemptions due to recent increases in supply under the Housing Production Plan rule and at least four that have met the land area standard. These communities can still accept 40B development proposals at their choice. An additional 64 cities and towns have reached at least 7 percent.

Chapter 40B has also spurred many cities and towns to form affordable housing committees to plan and implement a local strategy to build affordable housing in their community. Since 2003, 116 communities have developed state-approved housing production plans. It has also spurred communities to adopt inclusionary zoning bylaws and ordinances and to create Chapter 40R smart growth overlay districts. To date, 31 municipalities have adopted 40R districts, including 12 older cities and 19 suburbs, and over 2,000 units have been built or are in construction.



GUIDING PRINCIPLES

State housing goals are guided by principles of fair housing, smart growth and sustainable development, and accessibility and choice.

Fair Housing

The State is committed to, as well as required by federal and state fair housing and civil rights laws, to affirmatively further fair housing, expanding geographic choice, and ensuring equal access to housing opportunities for households who have experienced discrimination on the basis of race, ethnicity, disability, and other characteristics.

Despite federal and state fair housing laws, it is generally acknowledged that housing discrimination is widespread, particularly against some racial and ethnic groups, people with disabilities, households with rental assistance, and households with children – particularly children under age 6 due to lead paint law concerns. Local policies, including the elimination of multifamily zoning and the growing tendency to limit new developments to projects that only have 1 or 2 bedrooms or restrict occupancy to age 55+ households, also limit housing opportunities for families with children in many suburbs and small towns. The recent decision³¹ by DHCD to require at least 10% of the units in affordable housing developments have 3 or more bedrooms is an important step toward addressing the bias against children.

Massachusetts and most localities, however, have an obligation to try and address these problems because federal laws require recipients of federal housing funds to affirmatively try to overcome conditions that limit housing opportunities on the basis of race, color, national origin, gender, religion, familial status, or disability. In order to receive federal housing and community development funds, states and localities must certify that they will affirmatively further fair housing.

Smart Growth and Sustainable Development

Since 2004, the State has worked to align the activities of state housing, transportation, energy, and environmental agencies that affect land use with sustainable development principles. These principles discourage sprawl and encourage the revitalization of town centers and neighborhoods. They favor creating mixed income housing through infill development and rehabilitation

of existing structures, rather than new construction. They encourage siting near jobs and public transportation to create walkable districts with a mix of residential, commercial, civic and educational uses. State agencies, including DHCD, must consider how well projects meet these “smart growth” goals when awarding funds under some programs.

Accessibility and Choice

[Integrated Housing for Persons with Disabilities](#) - Consistent with a 1999 U.S. Supreme Court decision (*Olmstead*), the State is obliged to try to expand the supply of affordable housing for persons with disabilities in ways that do not segregate or isolate them and that maximize independence and choice.

Additional guiding principles that should be pursued by the next Administration include:

1. Improve coordination among state agencies to ensure their policies promote, rather than hinder, common goals;
2. Set specific goals to balance competing priorities (e.g. using housing to revitalize high poverty neighborhoods and to expand supply in low poverty neighborhoods) and track and report on performance against these goals; and
3. Incent localities to do their share in meeting regional housing needs, using sticks and carrots (e.g. preference or ineligibility for some types of discretionary state funding).



RECOMMENDATIONS

To make progress on affordable housing in the next four years, we recommend the following actions:

1. Increase housing opportunities across income levels

- Fund capital programs at full levels authorized by the Legislature (\$294 million per year).
- Invest in housing that addresses our homelessness crisis, revitalizes our aging cities while protecting affordability and creating economic opportunity for residents, and creates new affordable homeownership opportunities.
- Set housing production goal of at least 10,000 multifamily units and track progress.
- Increase funding for rental subsidy programs (Massachusetts Rental Voucher Program, Alternative Housing Voucher Program, DMH Rental Subsidies).
- Recapitalize the Brownfields Redevelopment Fund for multiple years in order to provide an efficient and reliable funding stream.
- Sustain the [Community Preservation Act](#) by providing \$25 million in a state-match through the Community Preservation Trust Fund.

2. Preserve existing affordable housing

- Develop a strategy to leverage sufficient resources to preserve privately owned affordable housing across the state, with particular attention to 13A developments.
- Increase funding for the Capital Improvement and Preservation Fund (CIPF) and Housing Stabilization Fund (HSF) to help fund preservation.
- Maintain technical assistance programs for municipalities and non-profit organizations through the Community Economic Development Assistance Program.

3. Preserve and revitalize state public housing

- Implement public housing reforms included in the public housing reform legislation signed into law in August 2014 that ensures housing authorities are working together to maximize economies of scale, provide strong resident services, and increases our public housing stock. See Appendix C.

- Increase operating subsidies and continue to invest in energy conservation to help close the gap between current funding levels and the amount needed for sound maintenance.
- Continue private activity bonds and capital funding that allows for the development of new units and helps local housing authorities develop new family housing.

4. Zoning Reform and Incentives to facilitate multi-family housing development

- Support zoning legislation that facilitates increased multifamily housing development.
- Provide planning and housing tools and incentives through continued implementation of Chapter 40R, the state's smart growth zoning law; and through providing technical assistance to help municipalities implement local housing plans.
- Encourage regional cooperation and formal agreements to promote sustainable development that meets our increasing needs for housing.
- Support permitting and zoning programs such as Chapter 43D (Expedited Permitting) the Housing Development Incentive Program, Compact Neighborhoods, and the Community Investment Tax Credit to make it easier to create housing.

5. Preserve the Affordable Housing Law, Chapter 40B

- Educate the public about the key role this statute plays in creating housing that is affordable to moderate income families outside of cities and expanding housing choice.

6. Strengthen collaboration between state agencies to effectively address the Commonwealth's most complex challenges

- Elevate the Department of Housing and Community Development to a Cabinet Level position in order to integrate housing into all policy decisions, allowing for the Administration to simultaneously address multiple challenges and improve the quality of life for Massachusetts residents.
- Develop a multi-agency approach to ensure families and individuals have streamlined access to the programs and supports they need to maintain housing stability.

- Convene a group of health and housing officials and practitioners to develop crosscutting system-changing programs that improve health and housing outcomes.

7. **Promote fair housing, accessibility, and choice**

- Make fair housing a high priority in state government and ensure that resources and tools are deployed for this purpose.
- Support efforts to provide housing options for people with disabilities and support services in affordable housing developments that also include non-disabled residents so that people are living in community-based integrated settings.
- Prioritize sufficient development of housing units with 3+ bedrooms that are appropriate for families with children.

WHY STATE INVESTMENT IN HOUSING MATTERS

State investments in affordable housing achieve tangible results. They help to:

- Increase the supply of affordable housing, providing stability to families and individuals and freeing up income for other purposes.
- Create construction and green energy jobs directly and spin-off benefits to the broader economy, including demand for retail goods and professional services.
- Leverage significant private sector capital through loans and investor equity.
- Create opportunities to improve health outcomes by providing stable housing with access to services to those with multiple health problems, and using building designs that are healthful and in their loca-

tion or amenities encourage healthy living.

- Revitalize urban communities, by addressing their varied strengths and weaknesses - some cities currently have limited demand for market rate housing, or are still recovering from the foreclosure crisis, while others, such as Boston, have neighborhoods where gentrification has the potential to displace long-term residents.
- Increase housing choices for families and individuals in neighborhoods previously out of reach.
- Reduce homelessness through prevention, early intervention, opportunities for early education and workforce development, time-limited assistance, and the expansion of permanent affordable housing.

THE CHALLENGES

In the face of declining federal support for housing assistance, state policy plays a critical role in determining whether the number of households who receive assistance will grow or shrink. Massachusetts has limited resources to help the hundreds of thousands of residents with diverse housing needs and will need to set clear priorities and goals in investing those resources. The next Administration will need to expand collaboration among state agencies (including transportation, health and human services, and environmental agencies) to realize the potential of housing to provide a platform for smart growth, urban revitalization, and access to reliable transportation, jobs, quality child care and education, and safe neighborhoods.



APPENDIX A: DEFINITIONS OF AFFORDABILITY

Affordable - Economists generally define housing costs (including heat and utilities) as affordable if they leave a household with enough income to cover their other basic needs. However, for simplicity, most public programs define housing costs as affordable if they consume no more than 30% of household income.

Area Median Income (AMI) - State and federal programs general limit assistance to households with incomes at or below 80% of the “HUD area median household income adjusted for household size” (AMI). The limit recognizes that households in higher brackets can pay a higher share of income towards housing without sacrificing basic needs. HUD set the limits annually by region within states (19 in Massachusetts) to reflect variations in housing markets. The current 80% limit for a household of 3 in Greater Boston is \$61,000.³²

	Extremely Low (30%) Income Limits	Very Low (50%) Income Limits	Low (80%) Income Limits
1 Person	\$19,800	\$32,950	\$47,450
2 Person	\$22,600	\$37,650	\$54,200
3 Person	\$25,750	\$42,350	\$61,000
4 Person	\$28,250	\$47,050	\$67,750
5 Person	\$30,550	\$50,850	\$73,250

Extremely Low-, Very Low-, Low- and Moderate-Income - Starting in the mid-1980s, recognizing that cost burdened problems are concentrated among households with incomes far below 80% of AMI, policymakers lowered the income limits for many rental programs, and/or added requirements to target at least some assistance to particular income brackets or populations. Though the descriptions are not always used consistently, the most brackets are:

	Median Household Income
Renter Household	40,749
Owner Household	98,208
All Households	72,804

- <30% of AMI (“extremely low income”)
- <50% of AMI (“very low income”)
- <60% of AMI (“low income”)
- <80% of AMI (“moderate income”)

Income targeting - Given the lower relative incomes of renters compared to owners, most state and federal funding programs for renters now use income limits at or below 60% of AMI (“low income”) and many require that at least some of the assistance be targeted to “extremely low income” (ELI) households. Relatively few public funding programs target homeowners; most homeownership programs target households earning 70%-80% of AMI income.

Cost Burdened - Households paying more than 30% of their income towards housing are considered cost-burdened. Those paying 30-50% of their income towards housing are called “moderately cost-burdened” and those paying more than 50% are “severely cost burdened.” Because high housing costs are more likely to leave lower income households unable to pay for other basic needs, most housing needs assessments focus on those of 80% of AMI or less. HUD estimates³³ indicate that just over 992,000 Massachusetts households have incomes at or below 80% of AMI (582,475 renters and 409,625 owners), including 271,000+ with moderate cost burden (over 163,000 renters and 108,000 owners) and 382,600+ with severe cost burden (about 215,000 renters and 168,000 owners). Most (74%) severely-burdened renters are extremely low income (158,000+), while only 4% have incomes above 50% of AMI.



APPENDIX B: AFFORDABLE HOUSING TOOLS

The rents (or sale prices) required to cover the combined cost of building and operating housing exceed the amount low and moderate income families and individuals can afford to pay and still cover basic needs. Public programs use three basic approaches to create housing affordability:

- **Development cost subsidies** - Reducing debt service costs and thus the rents required for financial feasibility through grants, soft loans, and interest subsidies.
- **Rental assistance or operating subsidies** - Many households do not have the incomes needed to cover operating costs. Two basic tools are used to cover the gap between what low income households can afford to pay and the rents needed to cover costs: rental assistance or operating subsidies. Rental assistance can also be used to make market rate housing affordable.

Rental Assistance

Rental assistance is the most widely used tool to make units affordable for extremely low income households. Rental assistance programs began in the late 1960s, in part as an alternative to building affordable housing. It was seen as a way to give assisted households greater housing choice by allowing them to rent housing in the private market and as a way to respond quickly to housing needs (rather than waiting for new construction).

Rental assistance makes housing affordable by funding the gap between what a household can afford at 30% of income and the actual rent. **Because the tenant's share of rent is set as a percentage of income, and can be reduced if that income falls, rental assistance makes housing affordable for even the poorest households.**

Major Rental Assistance Programs in Massachusetts	Extremely Low (30%) Income Limits	Very Low (50%) Income Limits	Low (80%) Income Limits
Section 8 , Mainstream, other PB (3/2014)	76,730	64,877	141,607
RHS (9/2013)	0	1,585	1,585
HUD Shelter Plus Care rental assistance		>1,000	>1,000
Subtotal	76,730	66,500	>144,192
MRVP (State) units leased 3/2014	3,815	3,060	6,245
Alternative Housing Voucher Program	412	0	412
DMH Rent Subsidies	some	most	1,250
Subtotal			8,207

There are two basic types of rental assistance: tenant-based (“mobile”) and project-based.

- **Tenant based assistance** provides geographic choice and mobility though they are often hard to use in high cost communities and when the rental market is tight. Tenants receive a voucher indicating the amount of subsidy they can receive and can use it to locate and rent a home or apartment anywhere in the state (for state programs) or the nation (for federal programs) consistent with program rules. If they move, they can use the voucher for their next home. Rental assistance expanded dramatically in the mid-1970s, with the enactment of HUD’s Section 8 program in 1974, and has been the primary strategy for assisting very low income households since the mid-1980s. Rental assistance programs are generally targeted to very low income households; HUD’s Section 8 program, targets 75% of new assistance to extremely low income households.
- **Project-based assistance** creates or deepens affordability in specific developments. The rent subsidy is tied to specific units under a long-term contract (5-20 years) between HUD and the owner. The subsidy covers the difference between the contract rent and the tenant share (usually 30% of income). The long-term contract provides a guaranteed rent stream and thus helps an owner obtain financing to build or rehabilitate the development. However, tenants lose their subsidy when they move (the unit is re-rented to another eligible household).
- A hybrid form of assistance, called a **project-based voucher**, has features of both models and is permitted under HUD’s tenant-based Section 8 program. The subsidy is tied to a specific development, but housing agencies who choose this model preserve mobility by allowing tenants who wish to move to apply for the next available tenant-based voucher. HUD allows housing agencies to use up to 20% of their tenant-based funding for this purpose. Given the desire to include units affordable to extremely low income (ELI) households in new developments,

housing authorities are increasingly using this tool (approximately 5,300 of the 75,000 vouchers in Massachusetts, according to March 2014 HUD data).

Currently, about 152,400 Massachusetts households receive rental assistance, including about 144,200 assisted through federal programs. About 8,200 more are assisted through state-funded rental assistance programs (down from 20,000 in 1990): 6,245 through the Massachusetts Rental Voucher Program (MRVP) and about 1,660 through smaller programs for persons with disabilities.

Development Cost Subsidies

The federal government and the State (including its quasi-public agencies) have programs to reduce development costs and debt service. These include state housing bond programs, tax-exempt bonds, federal HOME grants, FHA mortgage insurance and state and federal historic and federal low income housing tax credits. They use grants, soft loans, interest subsidies, and allocations of low-income housing tax credits³⁴ to reduce debt service costs. Other public programs reduce development costs by providing grants or low cost loans for site cleanup (Brownfields Redevelopment Fund) or infrastructure or by donating public land or waiving taxes and fees.

Operating Subsidies

Public housing is the only major public program that uses operating subsidies, rather than rental assistance, to close the gap between operating costs and rents affordable to very low income tenants. Public housing needs these operating subsidies because rents - set as a percentage of tenant income³⁵ - do not cover operating costs due to the low average household incomes (over half of all households are elderly and/or disabled). In 2013, household incomes in federal public housing in Massachusetts averaged \$16,090 and rents averaged \$350 a month.³⁶ State and HUD operating subsidies are supposed to cover the gap between rent revenues and the State or HUD's estimate of what it should cost a well-managed housing agency to operate this housing. However, actual payments usually fall short, due to inadequate annual state and federal appropriations. Recognizing this hazard, a new HUD initiative allows housing authorities to convert their public housing subsidy source to rental assistance if it appears advantageous to do so.

APPENDIX C: STATE AIDED PUBLIC HOUSING

Massachusetts is one of four states with state-funded public housing. The state system was developed with state funds, mostly between the late 1940s and mid-1980s. The state and federal programs are similar in many ways (both use income based rents³⁷ and rely on public funds for operating subsidies and capital costs). However, the state system has more units (45,600³⁸), is in far more communities (242 vs. 67), and has less restrictive citizenship rules. State developments tend to be smaller but in poorer condition because they receive less funding for maintenance and modernization.

State public housing makes up about 20% of state's total subsidized housing inventory (and 50-100% of the supply in many smaller communities). It is an especially important resource for the very poorest residents in the Commonwealth due to the rent structure. Two thirds of the units (30,250) are in "Chapter 667" developments for the elderly and non-elderly disabled; another 13,450 are in family developments (Chapters 200 and 705), and 1,900 are special needs housing (Chapters 167 and 689).³⁹

The state system faces two major challenges, the first being funding. The 2012 *Report of the Commission for Public Housing Sustainability and Reform* found that the quality of state public housing is often subpar and its long term viability is at risk due to years of underfunding. There is a \$2 billion backlog of capital needs to replace systems, increase energy efficiency, modernize, and provide accessibility.

The second challenge is the current management structure. The state units are owned and managed by 237 local housing authorities (LHAs), most (165) with portfolios of less than 200 units. Small portfolios make it difficult for LHAs to realize operating efficiencies and "staff and board members cannot leverage the capacity and/or skills to address the

complex operating and capital issues” they face.⁴⁰ Managers generally need at least 500-1,000 units to adequately staff for basic and routine property management and accounting and 1,000+ to fund more complex tasks such as capital planning and contracting, risk management, and multi-year budgeting. Only one of the 237 LHAs has 1,000+ state units (Boston) and only 15 have portfolios of 1,000+ when including federal units.

The management challenges must be addressed so that the State can accomplish more with its limited funds. State initiatives in recent years have increased funding and improved efficiency (energy conservation investments cut utility costs by \$3 million this year), helped train LHA boards, and set performance benchmarks. In August 2014, Governor Patrick signed a comprehensive public housing reform bill that creates a framework for a sustainable public housing system, strengthens accountability and transparency, capital planning, tenant participation in housing authority decisions and training, and creates a pilot program to test innovations and maximize economies of scale.

Major provisions include:

- Performance based monitoring for all housing authorities. Benchmarks, developed jointly by DHCD and stakeholders, will address capital and operating program criteria and governance activities. The bill allows DHCD to appoint a chief financial and administrative officer for chronically poor performing housing authorities.
- Annual planning required for all housing authorities. The plans will be available for public review and subject to public hearings.
- Required annual audits with a requirement to change auditors after five years unless waived by DHCD.
- Tenant representation on every housing authority board with election procedures to be created by DHCD. Technical assistance will be made available to board members, tenant organizations, and other tenants.
- Mandatory training for all board members every two years.
- New guidelines for Executive Director contracts. DHCD will have authorization to review all contracts and will be required to review contracts worth more than \$100,000 per year.
- Annual resident surveys.
- Centralized Application and Waitlist to be developed within one year.
- Capital Assistance Teams will be created to help housing authorities with capital planning, maintenance and repair planning, and technical assistance. Any housing authority can participate. However, participation will be required for all housing authorities with fewer than 500 state-aided units.
- Regional Innovation Program will create four regional housing authorities to implement innovative management and rehabilitation programs while maximizing economies of scale. Three of the four regional housing authorities will be comprised of at least seven local communities with collective portfolios of at least 750 units. One regional housing authority will bring together at least 10 communities with a collective portfolio of 250 to 700 state units.



END NOTES

1. [Fair Housing and Equity Assessment for Greater Boston](#), Metropolitan Area Planning Council, March 2014; DHCD [2013 Analysis of Impediments](#), page 3.
2. [Massachusetts Consolidated Plan 2010-2014](#), Massachusetts Dept. of Housing and Community Development, pp. 19-20.
3. Census Bureau -Cumulative Estimates of Housing Unit Change for the United States and States, and State Rankings: April 1, 2000 to July 1, 2009.
4. Calculated using Census Bureau, [Historic Annual Building Permits by State](#) and Decennial Census population counts.
5. Census Bureau -Cumulative Estimates of Housing Unit Change for the United States and States, and State Rankings: April 1, 2010 to July 1, 2013 and Population Estimates by State 2010 v. 2013.
6. The fastest growing occupations and their corresponding salaries are according to the Massachusetts Executive Office of Labor and Workforce Development. Fair Market Rent is based on the Massachusetts fair market rent for a two bedroom apartment according to HUD. Rent is considered affordable if it is less than 30% of a household's gross income.
7. Annual median single family home and condominium sale price data from the Warren Group.
8. Edward L. Glaeser, Joshua Gottlieb, and Joseph Gyourko, "[Did Credit Market Policies Cause the Housing Bubble](#)", Rappaport Institute for Greater Boston and Taubman Center for State and Local Government Policy Brief, Harvard University Kennedy School of Government, Cambridge, MA, May 2010, see pages 8-10.
9. American Community Survey (ACS) 2012 One Year Estimates for Massachusetts, Table B28118
10. HUD Comprehensive Housing Affordability Strategy (CHAS) data for Massachusetts, 2000 and 2007-2011 Five Year Estimates.
11. [The State of Homelessness in America](#), 2014, National Alliance to End Homelessness, May 2014; pp. 18-24.
12. Estimate based on applying the 6.8% turnover rate for federally assisted units and 4% turnover rate for Housing Choice Vouchers (reported in HUD's 2013 Picture of Subsidized Households) to the current inventory of subsidized rental units (excluding group homes) and current voucher programs. Assumes annual net addition of 1,000 new rental units through production.
13. Estimate based on review of State's 2014 Subsidized Housing Inventory.
14. An estimated 15% of households with tenant-based assistance use their vouchers in subsidized housing; this figure nets those households out.
15. Massachusetts Draft 2005-2009 Consolidated Plan, DHCD, February 2005, pp. 19-20.
16. [Nine percent \(9%\) credits](#) are designed to raise equity equal to 70% of qualified project costs (excluding land). The amount available for projects each year is limited by law. States receive annual allocations of 9% tax credit authority based on population. From 1986-2000, allocations were set at \$1.25 per capita; indexing for inflation was introduced in 2002. Massachusetts' 2014 allocation is \$15.39 million (\$2.30 per capita), but since each annual allocation supports credits at that level for ten years, the 2014 allocation will support \$153.9 million in credits. The amount of equity the credits raise depends on market conditions (prices have ranged from \$0.80 per dollar of credit in 1999 to \$1.07 in 2005). At \$1 per credit, the 2014 allocation would raise \$153.9 million.

[Four percent \(4%\) credits](#) are available for projects financed with tax-exempt bonds (e.g. by MassHousing or MassDevelopment). These are easier to obtain because there is no cap on the volume of 4% credits. They are designed to generate equity investments equal to 30% of qualified project costs.
17. The current Qualified Allocation Plan is posted on DHCD's website at <http://www.mass.gov/hed/housing/affordable-rent/low-income-housing-tax-credit-lihtc.html>.
18. In Federal FY2013, awards to Massachusetts for key HUD and Rural Housing Service programs, including rental assistance and public housing, homeless grants, CDBG and other activities, totaled \$1.46 billion (<http://www.usaspending.gov/>).
19. The Housing Bond Bill also includes \$45 million over five years to upgrade early education and out of school program facilities.
20. Amounts are based on authorized spending from the 2013 bond bill.
21. Technical Assistance Collaborative, [Building on Success: State Action Plan for Creating 1,000 New Units of Supportive Housing in Massachusetts](#), January 2014, page 8.
22. Technical Assistance Collaborative, [Building on Success](#), p. 8.
23. MGL c121B, Section 60
24. St. 2010, c.240, Section 105, *An Act Relative to Economic Development Reorganization*
25. Gateway cities as defined by state law (MGL c23A, §3A) are municipalities with a population greater than 35,000 and less than 250,000, a median household income below the state average and a rate of educational attainment (bachelor's degree or higher) that is below the state average. Currently (2014), 26 cities meet that definition: Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg,

Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield and Worcester.

26. Chapter 287 of the Acts of 2014 (H.4377). "An Act To Promote Economic Growth in the Commonwealth, August 13, 2014
27. Chapter 287 of the Acts of 2014, Section 32 adding M.G.L c23G Section 46
28. In 2004, only 17 of the 101 cities and towns in Greater Boston allowed multifamily housing as-of-right, down from 44 in 1972. In eastern Massachusetts overall, 127 of 186 cities and towns did not allow multifamily housing as-of-right, including 34 that did not even allow it by special permit. See Jenny Schuetz, "[Guarding the Town Walls: Mechanisms and Motives for Restricting Multifamily Housing in Massachusetts](#)", W06-3, Joint Center for Housing Studies - Harvard University, July 2006, pp. 6, 14. Even in municipalities that technically allowed multifamily housing, development was often not possible (e.g., the district was already built-out or the zoning required a minimum parcel size larger than could be assembled or the district was not on the zoning map and thus would need to be rezoned). See Housing Regulation Database: *Multifamily Housing*, Pioneer Institute and Rappaport Institute, 2005, page 1 http://www.masshousingregulations.com/pdf/multi_family.pdf.
29. Bonnie Heudorfer, "The Record on Chapter 40B", Citizens' Housing and Planning Association, June 2003, pp. 19-20 and 45 http://www.chapa.org/sites/default/files/qwert_3.pdf.
30. Id. at19.
31. [Interagency Agreement Regarding Housing Opportunities for Families with Children](#) (January 17, 2014).
32. The HUD 80% AMI limit is not a straight mathematical calculation. It is calculated by multiplying the 50% of AMI limit by 1.6, but the 80% limit is capped by law (no local 80% limit can exceed the national median family income). Similarly, the 50% limit – generally calculated at 50% of the area median family income – is also subject to adjustments in areas with unusually high or low rents and for areas with unusually high or low incomes; it may also be modified to prevent a large change (.5%) in a single year. See <http://www.huduser.org/portal/datasets/il.html>.
33. [HUD CHAS Estimates based on 2007-2011 ACS data for Massachusetts](#)
34. Developers sell the credits to investors (corporations seeking to reduce their federal or state tax liability and banks seeking to meet their obligations under the Community Reinvestment Act) in exchange for an ownership stake; the equity raised by the sale of the credits reduces a project's need for debt financing.
35. In federal public housing (built with federal funds and subject to federal rules), rents are set at 30% of adjusted household income. In State public housing (built with state funds and operated under state rules), rents range from 25-32% of household income, depending of household type (elderly or family) and whether the rent includes all utilities.
36. [HUD Picture of Subsidized Households 2013](#).
37. The federal rent formula is 30% of income toward gross rent, including the estimated cost of any tenant-paid utility costs (heat, electricity, hot water, cooking). The state rent formula varies by development type and the extent to which utilities are included. Rent in family developments is 32% of income if all utilities are included, 27% if at least one utility is tenant paid and 25% if tenants pay all utilities. In elderly/ disabled housing, its 30% if all utilities are included, 25% if not.
38. From 2009-2011, LHAs converted ("federalized") 3,856 state units to federal public housing under the federal stimulus bill.
39. [Training Manual for LHA Board Members](#) 2014, DHCD, p.32
40. *Report of the Commission for Public Housing Sustainability and Reform* (June 2012), page 2

