CHAPA POLICY PAPER

on State Housing and Community Development Policy for the Gubernatorial Candidates

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EXECUTIVE SUMMARY

Solving the affordable housing crisis in Massachusetts requires strong executive leadership that keeps affordable housing a top public policy priority. It also requires multiple strategies that meet a range of needs through both new production and preservation of existing rental and ownership housing for low and moderate income families and individuals, as well as establishing channels to facilitate the production of housing for all income levels.

The current administration has made housing a higher priority than did the four prior administrations, reversing years of declining funding and limiting cuts during the recent downturn. It has developed new regulatory and funding approaches with the goal of reducing homelessness. It has begun to address the long-term underinvestment in the state's public housing stock. It supported landmark legislation to preserve older developments at risk of converting to market rate housing, which passed unanimously by both houses of the Legislature. It has increased bond funding for housing for families, seniors and persons with disabilities. It has worked with the Legislature, Congress and HUD to address the foreclosure crisis. It has devised tools to deal with the crisis in the low income housing tax credit market and has invested stimulus funds strategically to improve existing units in ways that will also reduce State costs (weatherizing state public housing and obtaining HUD approval to "federalize" almost 4,000 units over the next two years). And it has supported programs such as Chapter 43D (Expedited Permitting) and Chapter 40R (Smart Growth Zoning and Housing Production) to make it easier to build housing in a state known for its high barriers to entry for housing developers.

The next four years will demand similar efforts and more in the face of new economic challenges and uncertainties. The downturn of recent years will continue to strain State finances and limit new federal funding as unemployment and foreclosures increase the number of households at risk of homelessness or struggling with high housing cost burdens. The State will continue to simultaneously face the need to expand permanent housing resources while providing funds to preserve existing affordable apartments and make them energy efficient. New affordable production is more likely to require direct financial assistance and ongoing deep subsidies as the weaker housing market will make it more difficult to use shallow or short-term subsidy programs that rely primarily on market rate sales or rents to help finance affordable apartments. In addition, a key state tool to overcome local barriers to the production of affordable housing (Chapter 40B) is at risk of repeal in the November election.

The State needs a governor who will make permanently affordable housing a budget and policy priority; who can educate the public about housing needs and strategies; who can continue to coordinate the key state agencies that directly and indirectly impact affordable housing policies; and who can continue to confront the local barriers to production of affordable housing in our "home rule" state.

The current downturn has increased, rather than reduced, the need for affordable housing. The state's inflation-adjusted median household income[1] was the same in 2008 as in 1999 and lower-income households experienced declines.[2] At the same time, Massachusetts continues to have some of the highest housing costs in the nation, as a result of prices that rose faster than incomes for many years, especially for those at the lower end of the income scale. The 2009 statewide median single family home price ($285,000) is 18% higher than the 1999 median ($174,900) on an inflation-adjusted basis.[3] A recent Harvard University study found that restrictive local land use and building requirements have played a major role in driving up housing prices.[4]

High housing costs hurt the economy in the short run by suppressing other types of consumer spending and threaten the state's long-term economic prospects by deterring households from relocating to the state and by spurring current residents to leave. Several mid-decade studies found that younger, educated members of the workforce were leaving Massachusetts, primarily because of the high cost of living, with the result that Massachusetts was the only state in the nation to lose population in 2003 and only one of two in 2004. While this trend has reversed and Massachusetts has gained population since then, housing affordability remains a major concern for current residents.

A University of Massachusetts Donahue Institute public opinion poll conducted in 2009 found that 35% of state residents or immediate family members were seriously considering leaving the state because of the high cost of housing and 64% felt high housing costs were hurting their local economy.[5] A 2009 study by the Harvard Business School's Institute for Strategy and Competitiveness found that addressing housing affordability is critical to renewing the competitiveness of the Massachusetts economy.[6]

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

- Increase the supply of housing and preserve existing homes.
- Create construction jobs and provide spin-off benefits to other important industries, such as retail and professional services.
- Leverage a significant amount of private sector capital, including private bank financing and private investor equity contributions.
- Revitalize urban communities, particularly in cities where new market rate housing is less feasible, including Lawrence, Springfield, Brockton, New Bedford, Fall River, and others.
- Prevent and reduce homelessness by providing early intervention and short-term assistance where appropriate as well as permanent affordable housing options.

To make progress on affordable housing in the next four years, the State will need to continue to refine its housing policy to respond flexibly to changing conditions, using a combination of strategies. Our recommendations include:

1. Preserve privately-owned affordable housing

- Ensure effective implementation of last year's state preservation law by maintaining adequate funding for the Capital Improvement and Preservation Fund (CIPF) and Housing Stabilization Fund (HSF) programs.
- Maintain/expand a technical assistance program for municipalities and non-profit organizations through the Community Economic Development Assistance Corporation.
- Ensure implementation of a new acquisition loan fund seeded with a MacArthur Foundation award to Massachusetts.
- Ensure preservation of MassHousing-financed inventory, such as SHARP developments.

2. Preserve and revitalize state public housing

- Maintain and increase operating subsidies over the next four fiscal years to help close the gap between current funding levels and the amount needed for sound maintenance.
- Invest in bringing vacant, off-line public housing units back on-line.
- Increase the state bond cap for modernization and continue implementation of the new formula funding system that makes capital funding predictable for housing authorities.
- Continue private activity bonds and capital funding that allows for the development of new units and helps local housing authorities (LHAs) to develop new family housing in high opportunity areas.
- Continue to invest in energy improvements using a variety of funding sources.
- Continue efforts to improve management and build capacity by providing technical assistance to LHAs and supporting regionalization efforts, including partnerships with other LHAs and regional housing organizations.
- Support legislation to begin a pilot program that would allow some housing authorities to test new approaches to providing housing and setting rents and admissions policies (An Act Relative to Public Housing Innovations).
- Provide smaller local housing authorities with more flexibility.
- Improve/increase accessibility and bring in new services to elderly public housing.
- Support asset building and self-sufficiency programming for public housing residents and rental assistance recipients and continue to support transitional-to-permanent placements for families who are homeless.
- Explore opportunities to bring federal funding to state public housing through project-based rental assistance, using the current federalization experience to protect current residents and waiting list households.

3. Preserve the state's affordable housing law (Chapter 40B)

- Educate the public about the key role this statute has played in creating housing that is affordable to moderate income families outside the cities, in promoting fair housing and expanding housing choice and in encouraging sustainable development.
- Continue to consider regulatory and legislative reforms that will improve the local approval process and the outcome of affordable housing developments.

4. Increase affordable housing production

- Continue to maintain adequate funding for the State Affordable Housing Trust Fund. Support legislation to make the state housing tax credit program more effective.
- Use new rental assistance or other subsidies to create affordable housing for extremely low income households.
- Support the development of small, locally-supported non-tax credit rental developments (20 units or less), using appropriate per-unit funding caps.
- Support the development of small and medium sized, locally-supported homeownership developments in targeted markets, using appropriate per-unit funding caps.

5. Expand access to housing and the amount of housing available for households who have extremely low incomes (below 30% of the area median income)

- Focus on permanent housing rather than short-term subsidy solutions.
- Use the existing infrastructure provided by the Regional Nonprofits and local housing authorities. Continue to rely on the ICHH regional structure if a careful evaluation warrants it.
- Publicly track and reinvest any substantial savings in shelter costs in permanent housing, rental assistance and prevention programs.
- Reinvest in prevention programs including the Residential Assistance for Families in Transition Program (RAFT).
- Reinvest in the Massachusetts Rental Voucher Program (MRVP) for both tenant-based and project-based assistance.
- Continue to support the Housing Consumer Education Centers.
- Continue to work with housing authorities and private owners of affordable housing to provide households who have extremely low incomes or who are moving from homelessness into housing greater access to available apartments. Possible mechanisms include setting aside apartments for these households or modifying certain application requirements.
- Pass legislation to coordinate the development of supportive housing at the state level to combine capital grants, operating subsidies, and support services in funding applications (An Act Relative to Community Housing and Services).

6. Minimize foreclosures, revitalize high-foreclosure neighborhoods, sustain and expand homeownership opportunities

- Continue to support stabilization programs in high foreclosure communities and advocate for continued funding of the federal Neighborhood Stabilization Program. Expand foreclosure prevention counseling grants.
- Reinstate the budget line item for the Soft Second Mortgage Program.

7. Collaborate with municipalities to support their housing and planning efforts, promote smart growth and regional cooperation

- Support legislative proposals to update the State Zoning Act and encourage communities to zone for affordable housing
- Launch a comprehensive technical assistance program that will help municipalities implement local housing plans.
- Continue implementation of Chapter 40R, the state's smart growth zoning law, by providing planning and technical assistance to municipalities.
- Sustain the Community Preservation Act (CPA) by providing for a minimum state match and making it easier for cities to use; provide technical assistance to communities that have passed the CPA (An Act Relative to Sustaining Community Preservation).
- Provide funding to smaller communities that are facing growth pressures so they can hire local professional planning staff.
- Continue efforts to revitalize small and gateway cities.
- Encourage regional cooperation and formal agreements to promote sustainable development.

8. 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. Continue to support the Massachusetts Office of Access and Opportunity
- Establish production goals for supportive housing and housing for individuals with disabilities, including additional apartments needed to meet court-mandates.
- 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 integration is achieved.

- Support the recommendations of CHAPA's Access Code Committee to ensure that the Massachusetts Architectural Access Board code is substantially equivalent to the federal housing codes and to ensure greater compliance by simplifying the code.
- Support the Tenancy Preservation Program, which preserves tenancies for people with disabilities.
- Continue to prioritize sufficient development of housing units with 3+ bedrooms that are appropriate to families with children.

9. Support Community Development Corporations and other community-based organizations to leverage housing and community development resources.

- Reexamine and reform funding criteria to support housing and community development investments that are part of broader neighborhood and community improvement strategies.
- Adopt flexible funding strategies that allow state resources to be invested in ways that respond to local market conditions, advance local community needs, and encourage innovative approaches that might not fit within narrow state and federal funding silos. This means that the state needs to support a diverse array of housing developments from large rental housing developments to smaller rental projects to homeownership units.
- Quickly implement the new CDC certification procedures so that non-profit organizations can apply for certification. This program should be designed to make the process efficient and to enable a broader range of non profits to qualify for certification than would have been possible under the old statute.

INTRODUCTION

Gubernatorial leadership is an essential ingredient for making progress on affordable housing in Massachusetts. For the past 15 years, governors have routinely stated that addressing the high cost of housing is critical to the long-term health of the state economy, yet state spending on housing has been sharply reduced. After reaching its lowest point in a decade in FY99, funding has risen slightly, but still remains 31% below FY89 levels without even adjusting for inflation.

Solving the affordable housing crisis in Massachusetts requires strong executive leadership that makes affordable housing one of the top public policy priorities in a new administration.* It also requires multiple strategies that meet a range of needs and include both new production and preservation of existing housing. Whoever leads the state in 2011 must commit to educating the general public about the needs and strategies for addressing the problem and continuing to coordinate the key state agencies that directly and indirectly impact affordable housing policies; and be willing to confront the local barriers to production of affordable housing in our "home rule" state.

The next administration should also continue to refine state housing policy comprehensively and continue to pursue key strategies, including:

- preserve privately-owned affordable housing;
- preserve and revitalize state public housing;
- increase affordable housing production;
- end homelessness through rental assistance, prevention and stabilization resources and other services;
- collaborate with municipalities to support their housing, planning and revitalization efforts;
- sustain homeownership opportunities, reduce foreclosures and mitigate their impact in hard hit neighborhoods
- enforce fair housing laws.

Why It is Important to Address the Housing Crisis

Massachusetts has long had some of the highest housing costs in the nation relative to resident incomes, and currently ranks third among the 50 states. The heart of the problem is that housing costs have been rising faster than incomes since the 1980s, especially for those at the lower end of the income scale. This trend suppressed state economic growth, increased homelessness, and helped create the housing bubble that has led to great distress in recent years.

High home prices and rents suppress consumer spending and threaten the state's long-term economic prospects both by deterring households from relocating to the state and by spurring current residents to leave. Studies in 2004 and 2005 found that younger, educated members of the workforce were leaving Massachusetts, primarily because of the high cost of living. Massachusetts was the only state in the nation to lose population in 2003 and only one of two in 2004 and several studies attributed the loss, in part, to high housing costs. While this trend has reversed in subsequent years, we are still growing more slowly than most states.

The downturn in the housing market has provided little relief to would-be buyers and none to the average renter. Home prices in many communities remain out of reach today, and Massachusetts remains at a competitive disadvantage (as home prices have fallen here, they have fallen across the nation as well).[7] The number of communities in Massachusetts where a household earning the median income for that city or town could afford to buy a median-priced home fell from 148 in 1998 to 27 in 2004 and is not much higher today. Current homeowners with mortgages also face some of the highest housing cost burdens in the nation due to the recent legacy of high home prices.

Renters continue to face challenges as rent increases have outpaced income growth. The median gross rent in Massachusetts rose by 45% between 1999 and 2008, while the median renter household income only rose by 19%. Even as the total number of renters in Massachusetts fell by 60,000 between 2000 and 2008, the number paying more than half their income for housing rose by 48,000 (to 204,000 households or 24% of all renter households). Almost 45% (90,834) are currently on DHCD's waiting list for rental assistance and they face long waits (DHCD issued a total of 248 vouchers for waiting list households in FY2010).[8] (See Appendix 1 for more detail on low and moderate income housing needs.)

* Housing for households with incomes at or below 80% of the area median income (currently $64.400 for a household of four) at a price they can afford (generally not exceeding 30-35% of income), either as a result of rental assistance or legal restrictions on the property.

Studies generally attribute Massachusetts' high housing costs to years of tight supply and high development costs. Production failed to keep pace with demand, driving up prices for existing homes and apartments. In addition, development costs for new housing are high, both in larger cities where there is little vacant land and in smaller communities where increasingly restrictive building and zoning requirements, including rising minimum lot size requirements, have raised land prices and limited the number and types of housing units that can be developed as-of-right. In 2007, the State estimated that at least 18,000 additional housing units were needed to meet current needs and it now expects shortages to persist past 2014.[9]

The recent housing bubble and downturn in home prices have created real hardship for many residents. For some individuals and families with very low incomes, high rents restrict housing choice and consume so much of their incomes that they cannot meet other basic needs. It also may force them to live in shelters or double up with other families, creating housing instability that is disruptive to their children's schooling.

High rents and home prices can also make it difficult or impossible for many lower wage and middle income renters to save for a downpayment and become homeowners, especially in communities with good schools.

High housing prices and restrictive zoning also impose environmental costs. Automobile use and highway congestion increased as buyers in search of homes they could afford located in communities further from their places of employment. As a result, the number of cars registered in Massachusetts rose 48% between 1992 and 2002. Average commuting times rose by almost 19% between 1990 and 2000 and continue to rise, as do vehicle miles traveled per capita.

The legacy of those high prices has also contributed to record levels of foreclosures. Since 2006, almost 40,000 residential properties have been lost to foreclosure – many concentrated in a handful of cities - displacing homeowners and often tenants as well.[10] At of the end of March 2010, at least 66,000 more loans were at least 90 days overdue.[11]

Continuing to invest in affordable housing development and preservation strategically can help address the impacts of high housing costs, mitigate foreclosure impacts and stabilize neighborhoods. These investments can also promote smart, transit-oriented growth and help the hard-hit construction sector. Employment in the construction industry has fallen by 25% since 2006 (April to April)[12] and former construction industry workers (almost 25,000) make up the largest group (20%) of all persons receiving unemployment assistance today in Massachusetts.[13]

1. Preserve Existing Private Subsidized Housing

State government must aggressively pursue preservation of existing affordable homes. Preserving these homes usually costs far less than new construction, it helps finance needed improvements that often benefit the surrounding neighborhood, it avoids resident displacement, and it does not entail the difficulty that comes with finding sites for new affordable housing.

The continued affordability of many older subsidized developments is at risk for two reasons: expiring use restrictions and/or a lack of capital for modernization and rehabilitation work that will extend their useful life.

"Expiring use" refers to projects that can be converted to market rate housing because they have or soon will reach the end of the time limit on their affordability restrictions and/or their subsidy contracts are expiring. Massachusetts has lost 6,000 affordable apartments since 1995 due to expiring restrictions.

Massachusetts has about 90,000 affordable privately-owned apartments developed with federal or state mortgage subsidies, tax credits and/or Section 8 project-based rental assistance. The long term affordability of about 41,000 apartments[14] is at risk through 2019, including almost 19,000 apartments[15] between now and December 31, 2012, either because owners of these apartments can opt-out of the subsidy program, thereby ending rent and tenant income restrictions for those units, or because low-income tax credit restrictions are expiring. These 41,000 apartments represent almost 20% of the state's entire affordable housing inventory.

Given that Massachusetts is currently only adding about 1,600 new affordable homes a year (excluding group homes), the potential loss of 19,000 by the end of 2012 cannot be taken lightly.

Except during the Romney administration, Massachusetts has had a very successful preservation program for most[16] of the past 15 years due to bi-partisan support for giving these older developments high priority for state assistance through the low-income housing tax credit and other DHCD programs. The state created a database to track expiring use projects and has worked closely with owners and residents to develop ways to extend affordability and meet capital needs, using two basic strategies.

- Profit-motivated owners who wish to convert to market rate housing are encouraged to sell instead to a non-profit buyer who agrees to maintain long term affordability (usually at least 30 years, often in perpetuity if the purchaser is nonprofit). In those cases, state and federal funds are combined to help the new buyer finance the acquisition and needed capital improvements (many suffer from deferred maintenance because funding and allowable rent revenues have failed to keep pace with the increased costs of maintenance and capital repairs).
- In cases where owners want to retain the property and continue its affordability, the new funds are used to replace expiring subsidies, finance needed capital improvements, and improve project cash flow.

This strategy has the potential to preserve even more homes going forward, with the Legislature's passage of a new state law in late November 2009 (Chapter 40T – An Act Preserving Publicly Assisted Affordable Housing). Chapter 40T creates an early warning system by requiring owners to notify DHCD, the municipality and tenants 24 months before an affordability restriction is due to terminate. It also allows the State, or other interested local entity (such as the municipality, a housing authority or non-profit) a right of first refusal to offer to purchase a property when the restriction expires.

CEDAC and DHCD have laid the groundwork for successful implementation with $4.5 million in grant and loan funds from the John D. and Catherine T. MacArthur Foundation. However, preserving the at-risk homes will ultimately depend on the State's willingness to continue to commit the necessary funding for acquisitions and capital improvements (notices for over 6,000 units have been received since January alone).

In addition to continuing efforts to maintain the affordability of expiring use properties, gubernatorial leadership will also be required to ensure that funds are available to address the capital needs of other privately-owned older subsidized developments and thus extend their useful life. Most of these developments were created using subsidy programs that limit rent revenues, profits and reserves, making it extremely difficult for them to obtain private financing, even for energy improvements that would benefit both tenants and owners.

To adequately address preservation needs, the State should take the following steps:

- **Maintain adequate funding for the Capital Improvement and Preservation Fund (CIPF) and the Housing Stabilization Fund (HSF)** - two key state bond-funded programs used to preserve existing affordable developments. These two programs have preserved 6,600 apartments since 1993 at an average cost in HSF and CIPF funds of $15,500 per unit.
- **Work with Congress to support the passage of federal preservation legislation** that would provide new tools and resources. This legislation is sponsored by Congressman Barney Frank.
- **Ensure successful implementation of the new $150 million acquisition loan fund** through collaboration with the Community Economic Development Assistance Corporation and the Massachusetts Housing Investment Corporation.
- **Ensure that CEDAC continues to have adequate resources to make tenants, non-profits and municipalities aware of local expiring use properties and help them negotiate** long-term preservation agreements and access purchase and rehabilitation funds.
- **Ensure preservation of MassHousing-financed inventory, including the SHARP portfolio**, through refinancing or other strategies. The multi-family advisory committee for MassHousing is now developing recommendations in this area.

2. Preserve and Revitalize State Public Housing

State public housing – funded with state rather than HUD funds and operating under state rather than federal regulation – is critical to Massachusetts' efforts to provide affordable housing. It represents 20% of the affordable housing inventory statewide and is a particularly important resource in suburban and rural communities, accounting for 40% of all affordable housing outside the state's largest and poorest cities. Most of these homes were built between the late 1940s and the mid-1980s. Very few units have been added since 1990.

At the end of 2008, Massachusetts had 49,400 units of state-aided public housing owned by the Commonwealth through 238 local housing authorities (LHAs). However, this figure will decline to about 45,600 by the end of FY2012 as 18 housing authorities convert some of their units to federal public housing. The 45,600 units include over 30,200 apartments for the elderly and disabled, almost 13,500 apartments for family housing and about 1,900 units in group homes.

State public housing is an irreplaceable resource for households who have extremely low incomes because it provides housing that these families and individuals can afford. This is because, by law, rents are set as a percentage of income. Although households with incomes up to 80% of median income are eligible for admission, most resident households earn less than 20% of median income (about $15,000 annually). Very little new housing affordable to this income group is being produced today (currently active programs generally provide apartments affordable to households at 50-60% of area median and ownership opportunities for households earning 70-80% of area median).

In addition, unlike federal public housing (34,000 apartments), which is primarily located in the Commonwealth's larger cities, state public housing is widely dispersed, with apartments in 243 cities and towns, usually in small developments (101 LHAs own fewer than 100 apartments each).

In addition, while aging, this housing does not face the severe problems that plague other parts of the country. Most family apartments in Massachusetts are in low-density townhouse or duplex developments with private entries that meet current housing needs and can continue to be maintained, modernized and operated at moderate cost.

For all of these reasons, preservation of existing public housing is the fiscally prudent course of action. Yet despite the importance of this stock, its long-term viability is at-risk. Many apartments are becoming deteriorated and obsolete due to a long history of underfunding and oversight mechanisms that are inflexible and insufficient to meet basic real estate needs.

The current administration has begun developing the comprehensive strategy needed to revitalize this valuable housing stock and preserve it for current and future generations, assisted in part by federal stimulus funds. It is critical to continue recent initiatives to return badly deteriorated apartments to productive use, to address the backlog of capital needs, to attract new funding sources and to ensure sound long term management, using a combination of new state funding, private sector investment and administrative reforms.

Specifically, the state should pursue the following steps:

- **Sustain and increase state operating subsidies over the next four fiscal years.** As with federal public housing developments, local housing authorities (LHAs) often need operating subsidies for their state public housing developments because the income from tenant rents (capped at 30-32% of tenant income) often is not high enough to cover operating costs. Operating subsidies are supposed to cover the gap between rent revenues and the amount a well-run housing authority would need to manage its properties. For many years, DHCD's formula has set those amounts (the "allowable expense level" or AEL) well below the level LHAs need to maintain apartments in good repair and fund capital reserves (and well below what HUD provides per unit for federal apartments).

  A 2006 report by the State auditor[17] found that "…state operating subsidies have been erratic through the years and generally too low to enable LHAs to maintain and preserve the housing units in good repair and to fund reserves." It cited a 2005 Harvard University study that found that LHAs needed approximately $341 per unit each month to cover the basic costs of operating public housing (excluding utilities), while DHCD was using an allowable expense level averaging only $202 per unit per month. The Harvard study found that raising operating subsidies to the federal level would require raising the state-funded operating subsidy budget to $115 million. The Auditor recommended that the State move towards parity by providing an immediate $35 million increase (to $70 million a year).

  The Legislature responded by raising the appropriation to $56 million in FY2007. The current administration has continued that effort but has been severely constrained in the past two years by state budget pressures. After raising allowable expense levels by 7% in FY2007 and by 12% in FY2008, it had to freeze them in 2009 and the cut in the FY2010 allocation of $62.5 million forced a 4.7% cut. As a result, LHAs are not receiving enough funding to keep pace with the rising costs of maintenance, materials, utilities, and maintenance staffing.

- **Maintain recent increases in investment in state public housing modernization.** Funding for modernization and larger capital repairs generally comes from the state capital budget. Years of underfunding have created a huge backlog of greatly needed capital improvements, such as replacing heating systems, roofs, and kitchens and baths. A 2001 CHAPA study estimated that more than $1.5 billion in modernization funds (about $30,000 per apartment) was needed over ten years to preserve and reinvigorate the stock.[18]

  Four years ago, we recommended that the State develop a ten year plan to raise spending to $100 million a year (up from $52 million at that time) to tackle the most critical modernization needs, with the increase phased in gradually to accommodate the overall bond cap of the Commonwealth. The current administration has made progress on this, raising annual state modernization spending to over $99 million in FY2010 ($87 million in state funds and $12.5 million in federal stimulus funds for weatherization). Efforts to sustain and increase this level of commitment going forward should continue.

- **Continue formula based capital funding.** DHCD has begun taking steps to make modernization funding more predictable by shifting to an annual formula-based grant system, as HUD did in 1998, and establishing an ongoing capital reserve system. Formula funding makes it easier for housing authorities to plan and prioritize their capital needs, results in better utilization of state funds and provides stronger incentives for local planning and management.

- **Bring in private capital and private sector discipline to public housing.** State public housing policies have long discouraged housing authorities from taking advantage of private sector capital and expertise. Following the lead of HUD, which adopted "mixed use finance" regulations for federal public housing in 1998, the State enacted similar regulations for state public housing in September 2005. These mixed-finance regulations allow for creative new approaches to funding development and renovation by allowing private and public funds to be combined to develop or redevelop sites that housing authorities currently own or control. The current administration has also set aside a private activity bond volume cap each year for state public housing and this should continue.

- **Continue to invest in energy efficiency improvements** to reduce public housing utility costs (often funded by the State through the operating subsidy account), improve the quality of developments and extend their useful life. The State should continue its strategy of pursuing varied funding sources, including new federal funds, building on its recent use of federal weatherization and other funding.

- **Continue efforts to build LHA capacity to undertake revitalization and new development.** DHCD should continue offering technical assistance, through Massachusetts Housing Partnership (MHP), to assist smaller housing authorities and provide planning grants to get mixed-finance projects off the ground with particular attention to small authorities and to those pursuing joint ventures and/or private financing.

  Pilot programs to revitalize troubled family housing developments and to redevelop existing low-density public housing and provide additional housing on these sites should be expanded. DHCD should also develop a simplified development and financing model for new housing construction on currently undeveloped LHA sites.

- **Explore opportunities to bring federal funding to state public housing** through project-based rental assistance, using the current federalization experience to protect current residents and waiting list households.

- **Test new approaches to management, including a pilot program to deregulate some housing authorities.** Support legislation (An Act Relative to Public Housing Innovation) to start a pilot program that would allow some housing authorities to test new approaches to providing housing and setting rents and admissions policies. The current extensive layers of regulation often hinder rather than help LHAs in their efforts to respond to local needs. Modest and targeted deregulation would allow responsible authorities to adopt policies such as ceiling rents and site-based waiting lists and to tailor their policies and management strategies to local market conditions. In addition, construction reform is necessary to free housing authorities from arcane and unrealistic bidding requirements.

- **Help smaller local housing authorities to achieve efficiencies.** The state should also provide incentives for smaller local housing authorities to collaborate with nearby housing authorities to achieve greater management and administrative efficiencies.

- **Support asset building and self-sufficiency programming for public housing residents and those who receive rental assistance; continue to support transitional-to-permanent placements for families who are homeless.**

- **Improve accessibility and bring in new services to elderly public housing.** Much of the state elderly public housing stock needs to be reconfigured to allow for larger apartment sizes and better accessibility because it was built decades ago without these important features. Equally important, the state should expand its program that coordinates support services in elderly public housing. This model program has been extremely effective in allowing residents to "age in place" rather than having to be placed in expensive nursing homes. Finally, several housing authorities have begun exploring the provision of affordable certified assisted living and this should be encouraged.

3. Preserve Chapter 40B, the State's Comprehensive Permit Statute

The comprehensive permit statute (Chapter 40B) was enacted in 1969 to make it possible to develop affordable and mixed income housing in cities and towns with restrictive zoning and land use regulations. Despite the critical role it has played in expanding the supply of affordable housing for working families with moderate incomes in suburban and rural areas, its continuation is threatened by a November 2010 statewide ballot initiative that calls for its repeal. Gubernatorial candidates must educate the public about the key role the comprehensive permit process has played in:

- creating affordable housing, especially outside the larger cities

- affirmatively furthering fair housing and expanding housing choice
- encouraging "smart growth" development through sustainable development requirements

Use of the comprehensive permit process is required for almost all affordable housing production in suburban communities and is the most effective tool for increasing the production of mixed income housing in those communities (see Appendix 2). Without it, it will be extremely difficult to produce affordable housing in suburban locations. Chapter 40B has been used in connection with the development of over 58,000 homes (30,000 affordable) since its inception and has accounted for 80% of the newly created affordable housing over the past ten years, outside the larger cities. A significant percentage of the post-1997 homes, especially the homeownership units, developed using Chapter 40B have been built without direct financial assistance from the State.

4. Increase the Production of Affordable Housing

Census data and waiting lists show a substantial unmet need for additional affordable housing. Some have argued that new State assistance is not needed due to "overhang" in the rental and ownership supply; however, recent studies have found that "[U]nlike parts of the country that experienced overbuilding, Massachusetts does not have a glut of unsold inventory of newly built homes"[19] and that homes priced at 85% of the metro area median are beyond the reach of first time homebuyers in every metro area in the state but Worcester County.[20] Similarly, while rental vacancy rates rose in 2007 and 2008, today they are near or below the 5-6% level often considered balanced.[21] Massachusetts had the lowest rental vacancy rate of any state in the first quarter of 2010 (4.4%) and the sixth lowest rate in the second quarter at 6.1%.

Additional affordable housing is required to assist some of the hundreds of thousands of households who have the lowest incomes in Massachusetts and who experience housing affordability problems, and especially the 142,000+ extremely-low income and the 42,000+ very low income renter households who now pay half or more of their income for housing.

Building new housing at all income levels is also an important economic stimulus that creates important jobs in the construction industry and related employment sectors.

Currently, Massachusetts is creating about 1,600 affordable homes a year through new construction and rehabilitation using conventional state and federal subsidy funds. Developers and suburban communities have been creating about 1,200 more homes a year through shallow subsidy programs (primarily density and other regulatory waivers under Chapter 40B and/or local assistance such as donated land or buildings or inclusionary zoning).

In choosing to allocate funds, the state must pursue a strategy that balances the affordability needs of residents in the state's larger cities with the goal of increasing housing choice, including increasing access to suburban communities with strong schools and greater access to employment. It should also proactively support the creation of new housing in mixed income communities. Serving families with a range of incomes builds healthier communities and the concept enjoys broad political and public support. It should also ensure that all new assisted developments include apartments for extremely-low and very-low income households. It must also ensure that admissions requirements are reasonable, to avoid eliminating access by homeless households who have credit issues or lack landlord references.

In order to achieve these goals, we recommend the following:

- **Debunk the myth that "overhang" in the rental and ownership supply has eliminated the need for additional affordable housing.** While unsold homes and vacant apartments can provide opportunities to create affordability, public investments are required to make that happen - most of those homes and apartments are not currently affordable to low and moderate income households and especially not to the lowest income groups with the greatest needs. In addition, the inventory is not evenly distributed throughout the state and may not meet the needs of some groups for access to services, jobs, transportation and good schools. There continues to be a shortage of accessible affordable housing for persons with disabilities and their families.

- **Continue to maintain adequate funding for the State Affordable Housing Trust Fund.** The Affordable Housing Trust Fund, created in 2000 and now funded through the capital budget, is the state's most flexible housing program. As of June 2009, it has awarded funding to help create almost

12,000 homes, including almost 10,000 affordable homes.[22] It can be used for both rental and ownership projects, can serve a wide range of incomes, and makes it possible to respond to emerging needs.

It often functions as a critical "gap filler" funding source, added to other project subsidies to deepen affordability (lowering the income a household needs to afford the rent) or to increase the total number of affordable units in a project or make longer-term affordability restrictions possible. Four years ago, CHAPA recommended an increase in the housing trust fund from $20 million to $50 million annually. The significant progress made toward this goal (funding of $40 million a year in FY2009 and FY2010), achieved in part by a contribution by MassHousing in FY2009, should be sustained.

- **Continue to align affordable housing goals with sustainable development principles.** CHAPA is an advocate of smart growth development as a way to harness the positive aspects of growth while minimizing its negative impacts. We are a founding member of the Massachusetts Smart Growth Alliance.

  CHAPA supports locating housing in places where people already live and work as legitimate policy, as long as it is balanced with a recognition that all Massachusetts residents are entitled to fair and equal access to housing opportunity throughout the state. Not all municipalities have public transit and many have very small town centers with few development opportunities. Often, there are other appropriate locations for housing to be developed.

  We support the state's Sustainable Development principles which recognize that other elements of smart growth should also be considered when evaluating housing proposals, including:
  - Promoting efficient land use through the development of compact, mixed-use communities;
  - Concentrating development by clustering housing and preserving open space;
  - Protecting the environment and conserving natural resources by using energy efficient technologies and alternative technologies for waste water treatment;
  - Planning regionally rather than town-by-town; Promoting diverse housing types in a way that is compatible with a community's character and vision while providing new housing choices for people of all means and abilities.

  We recommend that the State continue to use these principles to guide investment over the next four years

- **Support legislation to make the state housing tax credit program more effective** by permanently accelerating the tax, making it a three year rather than a five year credit.

- **Support the development of small, locally-supported non-tax credit rental developments (20 units or less), using appropriate per-unit funding caps.** The largest single source of financing for affordable rental projects is the federal low income housing tax credit program (LIHTC), but it is not economically feasible for small projects (20 or fewer units). As a result, developers of smaller projects - more typically developed by community based organizations and often serving special populations, including the homeless - generally rely on other state subsidy sources such as HOME and the Affordable Housing Trust Fund for financing. However, the post-2008 decline in tax credit prices and investors has meant larger projects are also seeking more funding from those programs to fill the gap. This had led to a sharp drop in the number of small projects funded by DHCD.

  Part of the decline is related to DHCD's cap on the amount of state subsidy funds it will award per unit ($100,000) since it is applied equally to projects with or without low income tax credits or local funding sources (CDBG and/or CPA funds). This approach automatically disadvantages small projects and unfairly penalizes communities that don't have CBDG or CPA funds. DHCD should adopt a more flexible cap, with adjustments allowed for smaller projects and projects that serve particularly important goals, including providing homes for high need populations, revitalizing distressed areas in Gateway cities, and creating rental and ownership opportunities in high cost communities.

- **Support the development of small and medium sized, locally-supported homeownership developments in targeted markets, using appropriate per-unit funding caps.**

Since the onset of the foreclosure crisis, DHCD has had a moratorium on funding new affordable homeownership projects. In large part, this has been driven by the falling homeownership markets in many areas of Massachusetts, the increase in foreclosed properties in some communities, and more restrictive mortgage lending requirements. However, the Commonwealth has long recognized the value of new homeownership in strengthening communities—both in high cost communities as well as gateway cities.

Therefore, DHCD should accept applications for funding affordable homeownership projects, at an appropriate scale, if the applicant can demonstrate a sufficient market for the completed units and makes provisions for homebuyers to complete a certified first time homebuyer training. As noted in the recommendation on rental housing above, DHCD should adopt a flexible per unit subsidy cap for projects that serve particularly important goals, such as creating rental and ownership opportunities in high cost communities.

- **Expand the use of new rental assistance or other subsidies to create housing affordable to extremely low income (ELI) households and those moving out of homelessness.** Three quarters (73%) of the renters statewide with severe housing affordability problems – and most of the families and individuals who end up using the homeless shelter system – are extremely low income, with incomes at or below 30% of area median (up to $24,800 for a household of three in Greater Boston, but averaging less than $15,000). Many have incomes closer to 15-20% of area median, especially persons with fixed incomes such as SSI or SSDI, and cannot afford the rents required to cover even the operating costs for their apartments.

  Major state and federal housing programs are designed to produce housing with rents affordable to households earning 50-60% of area median, and even when multiple subsidies are used to skew rents or create zero debt service, these programs generally cannot produce homes ELI households can afford – with most setting aside 10% of their affordable units for this group (and generally assuming those households will have rental vouchers).

  The State's capacity to provide the ongoing rental assistance to close the gap has been limited – as the major state-funded program (the Massachusetts Rental Voucher Program or MRVP) has been steadily cut and the federal Section 8 program has been largely frozen for the past 15 years. Expanding state-funded rental assistance is an important step toward meeting the goal of increased production of housing for extremely low income people.

  DHCD and some housing authorities have used their authority to "project-base" some of their tenant-based rental assistance funding to specific projects to support ELI housing production. That should continue as it can help create high quality apartments that address accessibility and service needs.

  DHCD should also continue to work closely with HUD to advocate for expanded Section 8 rental assistance and explore other ways to create additional ELI homes. The State must also work with the developers and owners it funds to ensure that unduly restrictive policies are not preventing access to this housing.

- **Design state housing programs to complement and leverage federal funds**. The new federal administration has reinvigorated HUD and led to new federal housing initiatives to improve public housing, increase mobility under Section 8, finance energy improvements in subsidized housing and coordinate housing, transportation and environmental planning. DHCD should continue to maximize access to new federal funding opportunities and tailor state programs to complement these new resources.

5. End Homelessness/Expand Access to Housing

Homelessness among families, the elderly, people with disabilities and youth aging out of the Department of Children and Families and DYS systems remains a major problem, notwithstanding a recent infusion of substantial resources to pay for very short-term housing subsidies. According to DHCD point-in-time data (which is much more conservative than data from other sources which suggest higher numbers), over 14,000 people in Massachusetts were homeless at the end of 2009, including 7,000 individuals and just over 7,000 people in families with children.[23] The number of families in the emergency shelter system also reached record levels in late 2009 and remains at one of the highest levels in history.

Reducing and preventing homelessness is possible with appropriate strategies and adequate resources. Four years ago, we stated that with affordable rents, flexible funds for securing housing and connections to community supports, anyone—even those considered chronically homeless—can be successfully housed.

Recent trends in chronic homelessness among individuals in Massachusetts demonstrate this to be true. In recent years, state and federal efforts to reduce chronic homelessness among individuals have paid off. In the early 2000s, HUD began encouraging states and localities to develop long-term strategies to end chronic individual homelessness and requiring them to spend more of their HUD homeless funds on permanent housing creation. The result has been a 30%+ drop in chronic homelessness nationally and the number of individuals using the State's homeless services system each year has remained fairly steady since 2005 at just under 3,000,[24] while point in time counts of unsheltered homeless persons dropped by 29% (403 persons) between 2006 and 2009.[25]

Family homelessness, by contrast, has risen steadily. The downturn in the economy and rising rents increased the number of families needing assistance even under narrowed eligibility rules, while funding for prevention and re-housing programs failed to keep pace. In the past few months, however, strategies funded primarily with temporary stimulus dollars have had some impact. However, those federal dollars will soon be exhausted, and families housed with only temporary subsidies that are expiring may soon rejoin the ranks of the homeless.

Expanding strategies to end homelessness is good fiscal policy, as well as good social policy, while under-investing in prevention and permanent housing hurts families, children and individuals; it is also inefficient and hurts State and local treasuries. State spending on the Emergency Assistance (EA) program for families with children has tripled between fiscal years 2001 and 2010 (from $46 million to a projected $152 million), while failing to provide good housing outcomes for many. (Spending on shelters for individuals has held flat at about $36 million). In addition, city and local spending on school transportation for homeless children rose to $9.2 million in the 2008-2009 school year,[26] and 18 districts had homeless enrollments averaging 100 students or more over the past three years.[27]

In the past two years, the State has begun to develop and implement better strategies and to bring new resources to the problem. It has been guided by the recommendations[28] of a 2007 Special Commission to End Homelessness established by the Governor. That Commission recommended a strategy that focuses on housing rather than shelter systems. It called for a new emphasis on prevention and initiatives that tailor assistance to the diverse situations and needs of households ("targeting the right services to the right people at the right time"). It also recommended steps to help families improve their economic situation over the long run.

Since the issuance of that report, the Administration, with $8.25 million in new funding from the Legislature, has created eight regional networks of housing and service providers to coordinate prevention, shelter, re-housing and stabilization services (two other networks were funded privately by a foundation), although data evaluating the effectiveness of this structure is not yet available. It shifted responsibility for homeless services from the Department of Transitional Assistance (DTA) to DHCD last July. It revised the way it funds shelters in early 2009. The new contracts are designed to ensure that the location of shelter beds matches the location of families needing shelter, and to provide increased and more flexible funding for re-housing and stabilization services. The administration set a goal of re-housing families within 120 days, with financial incentives to meet or surpass that goal, although concerns exist about this goal being used improperly to force families into unstable housing situations prematurely.

DHCD has developed a system of interventions, described metaphorically as "four doors",[29] which are carried out by shelter providers and by some regional nonprofit housing agencies using federal stimulus funds under the Homelessness Prevention and Re-housing Program (HPRP). As designed, the four doors are:

- *Homeless diversion* ("the front screen door") - Families seeking shelter contact a DHCD Homeless Coordinator (formerly DTA-EA worker) who determines whether State homelessness prevention programs can avert the need to enter shelter. If needed, the Coordinator works with a Diversion worker (from a non-profit agency) to connect families with pre-shelter resources in the community. The Diversion worker also follows up to ensure the household whatever housing stabilization services they need. (Where undertaken with the best interest of the families in mind, some forms of diversion can be effective. However, advocates report "diversion" is sometimes being used to improperly deny eligible families, with no other safe place to go, timely access to shelter.)

- *Emergency Shelter* ("the front door") - Eligible families enter the shelter system when all reasonable and sensible diversion strategies have been exhausted.
- *Re-housing* ("the back door") - Shelter providers help families move to transitional or permanent housing. (Due to lack of permanent affordable housing, most families are being placed with only temporary subsidies, which raises substantial concern around what happens to families when the subsidies expire).
- *Stabilization* ("the back screen door) - Shelter providers and sometimes the regional network are required to assist with housing search and stabilization so the family or individual does not have to return to the shelter world. (Due to limited funding and overwhelming demand for services, the stabilization goal is often not met. More and more, families are evicted for non-payment of rent after their temporary subsidies expire, having never been provided any real stabilization services).

DHCD is using a variety of tools to support this effort, including short and medium term financial supports (3-18 months) and agreements with owners and housing authorities to improve access to existing subsidized apartments. This approach – dependent in large part on one-time federal grants to the state and localities of more than $44 million in stimulus funds under the federal Homeless Prevention and Rapid Re-housing Program (HPRP) – reduced the number of families in hotels and motels from 1,079 in November 2009 to 819 in May 2010 and to 739 by late August 2010.[30] However, the numbers have risen again to over 800 in September 2010 due in part to expiration of federal funding and short-term subsidies.

However, major challenges to long-term progress remain. The HPRP funds, which support financial assistance, relocation and stabilization services, are expected to be fully spent by December 2011. Furthermore, short-term shallow subsidies are unlikely to succeed for a majority of families who face significant barriers to accessing permanent housing, particularly in the regions of the state with the highest housing costs. In the short-run, the State is approving extensions of assistance. The State must acknowledge that longer term success will depend on the continued availability of state and federal funds for this strategy and on the availability of sufficient longer term permanent affordable housing and/or rental assistance. It will also depend on the availability of cost-effective health care, day care and other employment support, as well as support services to ensure stable tenancies. Without these, some families will again become homeless.[31] As long as the current housing and service delivery system fails to meet the needs of extremely poor people, we will continue to need emergency shelters for basic health and safety.

In short, Massachusetts will only make significant progress in reducing homelessness and in realizing savings by making a significant investment in housing and assistance that is targeted to households who make less than $25,000 annually, those with extremely low incomes. We recommend taking the following steps:

- **Maintain and reinvest in the Massachusetts Rental Voucher Program** to help more households with rent costs and help families who are homeless and who need more than short-term rental assistance. MRVP helps tenants pay their rent in private apartments at an average cost of approximately $600 per month, much less than the $3,000 average monthly cost of shelter. Assistance is limited to households with incomes at or below 200% of the federal poverty limit. Tenants pay 35-40% of their income toward the rent and the voucher covers the difference.

  This state-funded program assisted 20,000 households in 1990 but that number fell to 4,300 by the end of FY2006, due to years of budget cuts and freezes. Since then, the Legislature has approved a combination of state and MassHousing funding to support about 800 new vouchers, primarily for homeless and at-risk families and individuals. As of June 2010, it was assisting 5,100 households. Of these, 2,000 had mobile vouchers that can be used to rent any apartment or house in the private market that meets program rules. Another 3,100 had project-based vouchers attached to specific units in subsidized developments - including many older MassHousing financed developments - to make some apartments affordable to extremely low income households.

  MRVP vouchers are a better and far less expensive solution to homelessness than shelters. The State now spends an annual average of $26,620 per family for shelter stay. This could fund 29 months of MRVP rental assistance at an average cost of just over $900 a month for a family unit in today's market.[32] We recommend reinvestment in a strong and growing MRVP program, including funding from any sustained future shelter savings, in order to expand the number of MRVP vouchers, to roll back rent cuts on the project-based units to ensure owners do not withdraw from the program, and to update some of the program rules.

- **Restore funding for the RAFT Homelessness Prevention Program.** The Residential Assistance for Families in Transition (RAFT) Program was created in 2004 to help very low income families avert homelessness, and can assist households who earn incomes above the shelter system limits. It provides one-time financial assistance of up to $2,500 to help families avoid eviction or obtain a new apartment (if they must move or are in shelter) through help with security and utility deposits. From FY2005 through FY2009, it was funded at $5 to $5.5 million a year. In FY2010, the Legislature funded it at $5 million but it was then reduced to $160,000 through a gubernatorial veto and a supplemental budget transfer in October 2009, as funding was transferred to MRVP to avoid cuts in that program. A one-time infusion of federal stimulus funds for homelessness prevention has helped the State to continue similar assistance in the short-run, but only in a few areas, and new funding will be required once that resource is exhausted later in FY2011.

- **Support the Housing Consumer Education Centers.** The Housing Consumer Education Centers are also an important and cost-effective homeless prevention and housing stabilization tool. They were established in FY 2001 to provide one-stop information and services for all housing consumers, providers and landlords across the state and to reduce the incidence of homelessness and displacement by preserving tenancies. They are administered by the nine regional non-profit housing agencies and assist more than 56,000 tenants, first-time homebuyers, homeowners and landlords each year. In the past eighteen months, they have also helped the regional homelessness networks manage referrals for housing and services. Funding for this program was cut from $1.85 million in early FY2009 to $1.4 million in FY2010 and FY2011.

- **Support legislation to combine operating subsidies with capital subsidies in order to expand the supply of housing affordable to the lowest income households.** Creating housing that is affordable to extremely low income households and lining up funding for any needed support services is currently a very difficult and time-consuming process. The multiple resources needed (capital subsidies, operating subsidies and service contracts) are controlled by a number of different state agencies and coordinating these can be difficult.

  CHAPA supports legislation (An Act Relative to Community Housing and Services) filed this session that would require the State's housing and human service divisions to develop a demonstration program that would coordinate the various funding streams in order to create 1,000 units of permanent supported housing within three years. The bill also would require those agencies to quantify the need for such housing, develop a long-range strategy to meet it, and develop benchmarks to assess the savings associated with reducing the need for institutional or shelter stays.

- **Continue to work with housing authorities and private owners of affordable housing to provide extremely low income households greater access to available homes.**

- **Make data publicly available on demand for and use of current homeless system resources .** We understand that the State has refined its data collection efforts to help it evaluate demand, track how resources are deployed, and to track both short- and long-term outcomes. The State should make this information easily accessible and use it to guide future investments. The City of New York's reporting system provides a good model.[33] In particular, information on how new programs such as short-term subsidies work is needed to evaluate and improve programs. Without understanding what works for whom and at what cost, the State cannot hope to effectively reduce the incidence and duration of family homelessness.

- **Consider promoting the current model of DHCD administering the Section 8 and other rental assistance programs on a regional basis.**

6. Minimize Foreclosures, Revitalize Neighborhoods, Sustain Homeownership Opportunities

High housing prices in Massachusetts make it difficult for many low, moderate, and middle income households to purchase their first homes. Given that homeownership has been key to the ability of most households to build assets, there is a clear public interest in promoting it. At the same time, the fallout from subprime lending and the post-2005 housing market downturn makes it clear that public policy should focus on creating sustainable ownership opportunities and recognize that ownership is not ideal for all households. That fallout has also created a need for interventions to prevent foreclosures and mitigate their impact in hard-hit neighborhoods.

Despite the recent decline in home prices, the ability of low and moderate income renters to purchase homes has worsened in the past decade. The statewide median price for a single family home almost doubled between 1999 and 2005 (rising from $174,900 to $345,000) and the statewide median sale price for a condominium rose by 115% (from $129,000 to over $278,000).[34] Despite the subsequent decline, the statewide median price in 2009 for single family homes and condominiums remain 63% and 95% higher than in 1999 ($285,000 and $252,000), and thus still out of reach for first-time homebuyers in most communities. (The impact varies by community, with some suffering small drops and others much bigger drops.)

In addition, the number of homeowners facing financial challenges has increased. While the run-up in prices enabled many to tap into their equity in their homes, the downturn has put many in difficult positions. Some are unable to move, because they cannot pay off their existing mortgages, and many are now devoting much higher percentages of their income to housing costs (14.6% of owners statewide paid half or more of their income for housing in 2008, compared to 8.6% in 2000.)[35]

The decline in housing prices and the economic downturn has also led to record levels of foreclosures. Since 2006, over 29,000 residential properties have been lost to foreclosure, displacing homeowners and many tenants as well, and at least 18,000 more homeowners are participating in loan modification programs, while thousands more have begun the foreclosure process. In stronger markets, foreclosed homes sell quickly at auction, but in weaker markets, they have ended up lender-owned for months on end.

As DHCD notes, "The foreclosure crisis has not affected all neighborhoods equally… Low-income urban neighborhoods and racial and ethnic minorities have been most adversely impacted… [In 2008] the five communities with the highest percentage of distressed properties (properties with foreclosure petitions, deeds, or auctions) were Lawrence, Brockton, Lynn, Fitchburg, and Springfield – all cities with large low-income and minority populations. The pattern becomes even starker at the census tract level: the twenty census tracts with the largest percentage of distressed units are all in Brockton, Lawrence, Lynn, Worcester, Springfield, and two of Boston's majority-minority neighborhoods – Dorchester and Roxbury."[36] This trend has generally continued to hold, though several other communities on or near the Cape and in Central Massachusetts have also seen high rates of foreclosures.[37]

High foreclosure rates impact the long-term viability of the hardest-hit neighborhoods, dragging down the values of neighboring homes, hurting property values and forcing municipalities to take on property management costs when the period from initial default to transfer of ownership drags on for months (in part due to the reluctance of some lenders to write off loans).

The State has taken a number of steps over the past three years to address the foreclosure problem, including enacting new laws to outlaw predatory lending practices and setting stricter standards for the mortgage industry. New legislation, passed in July 2010, provides greater protections for tenants living in foreclosed properties and encourages lenders and homeowners to work on loan modifications. Previous legislation, in 2007, required lenders to explore alternatives at least 90 days before foreclosing. The state has funded counseling programs to help struggling homeowners find ways to retain ownership, if possible, and has taken numerous steps to ensure tenants are accorded their full legal rights to remain even after a property is foreclosed. It has also adopted policies to give localities more resources to address local foreclosure impacts and to encourage the transfer of foreclosed properties to responsible new owner-occupants and non- and for-profit landlords.

To help support struggling owners and would-be homebuyers over the next four years, the State should emphasize the following approaches:

- **Continue coordinated programs to revitalize high-foreclosure neighborhoods.** State efforts to address the impact of foreclosed properties should continue to focus on the hardest hit communities, strategically combining federal Neighborhood Stabilization Program (NSP) grant funds ($65 million) with state-controlled resources. The State should continue to support the Neighborhood Stabilization Loan Fund (NSLF), a $22 million low-interest fund that enables nonprofit and for-profit developers to buy abandoned and at-risk properties and get them quickly reoccupied with new renters or homeowners. Most of the funding ($21 million) has been provided by foundations and bank investments through the Massachusetts Housing Investment Corporation (MHIC) and the Massachusetts Housing Partnership (MHP). The State has provided $1 million in loan loss reserve funds from the Affordable Housing Trust Fund money and will also provide up to $60,000 per unit in state or federal funds for rehabilitation. Seventeen non- and for-profit developers expect to rehab over 300 units in targeted neighborhoods in Boston, Worcester, Springfield, Lawrence, Lowell, Chelsea and New Bedford.

- **Continue to support receivership and other programs to return foreclosed and abandoned properties to responsible ownership.** State use of NSP and NSLF funds to support receivership program loans in Worcester and Springfield should continue. These programs, managed by local non-profits, will support stabilization efforts by providing small rehab loans to court-appointed receivers of occupied distressed properties. Similarly, NSP support for the Massachusetts Foreclosed Properties Initiative should continue. The Initiative brings together municipal representatives, nonprofits and banks that own foreclosed properties to support the purchase and transfer of foreclosed properties to responsible owners on sustainable terms. CHAPA serves as a clearinghouse connecting banks that own properties with housing organizations interested in purchasing them and banks give these entities a 5-day "first look" period before listing them on the open market.

- **Continue support for the Soft Second Mortgage Program.** Since 1991, the Soft Second Program has served more than 8,500 low and moderate income first-time homebuyers in 204 Massachusetts cities and towns by providing a low-cost second mortgage on sustainable terms. Throughout its history, the program has had a delinquency rate lower than other mortgages made in Massachusetts, while consistently serving households earning below 55% of the median income statewide. More recently, MHP has made this program available to buyers of foreclosed properties in the state's 39 NSP target areas. This program, called "Funds for Fixer Uppers" is available to buyers with incomes of up to 120% of area median, even if not a first-time buyer, and in some areas also provides NSP rehab grants of up to $20,000 a unit.

- **Increase funding for Foreclosure Prevention Counseling.** The Commonwealth will continue to feel the effects of the foreclosure crisis well beyond 2010. In 2007, as part of a multi-pronged effort to address the foreclosure crisis, the State enacted Chapter 206, a new law that screens out predatory lenders by requiring the licensing of mortgage loan originators, and also requiring lenders to offer counseling to homeowners who have fallen behind on their mortgages before beginning foreclosure proceedings. Chapter 206 permits the Division of Banks to use retained revenue from the licensing fees to fund foreclosure prevention counseling. These counseling grants have helped achieve the best possible outcome for many struggling homeowners, but funding has been cut from $2 million in FY2009 to $1 million in each of the past two years. We recommend restoring funding to $2 million and having the Division of Banks expand allowed uses to include assistance to tenants in foreclosed properties.

- **Continue to support the development of new affordable homes for ownership.** The state should continue to encourage the development of affordable ownership grants, loans to developers, incentive payments and planning grants to municipalities, and financing assistance through MassHousing first-time homebuyer programs and the Soft Second program. The state should target these efforts in ways that support sustainable community initiatives, efforts to revitalize older cities and efforts to promote housing choice in high-opportunity neighborhoods.

- **Work with tenants in foreclosed properties to avoid displacement.** A 2007 study estimated that 55% of all units in foreclosed properties in Massachusetts were rental units (often in 2-4 unit buildings), and local studies report even higher percentages in hard hit cities such as Lawrence.[38] Many of these properties remain lender-held for well over a year. As a matter of public policy it makes sense to help bona fide tenants remain in these units until they have to move, both to avoid displacement and to avoid the problems abandoned buildings attract. A state law[39] signed this August provides new protections to all tenants in Massachusetts who live in a property that is foreclosed. The State must ensure that tools are in place so that tenants are aware of and able to exercise these rights. Under the new law, bona fide tenants must receive at least 30 days written notice if a lender wants them to vacate their apartment and cannot be evicted except for "just cause" (non-payment of rent; lease violations, etc.) or after refusing to extend or renew a lease which has terminated. Tenants can also be evicted upon a re-sale of the property (but must receive the 30 day notice). If a tenant receives state or federal rental subsidy, the terms of their rental agreement will not be affected by a foreclosure sale. Tenants do not have to leave immediately after a lender gives proper notice if they do not want to leave. They are entitled to a court hearing at which the court will determine how much time they will be given to vacate their apartment. Lenders may not force tenants to vacate an apartment against their wishes without court approval.

7. Collaborate with Municipalities to Support Housing and Planning Efforts

Municipal governments play a central role in the production of affordable housing. They are responsible for local zoning, the housing approval and permitting process, environmental regulations, and Chapter 40B. They also own land and buildings that could potentially be used for new housing development. In short, they can "make or break" progress on affordable housing.

There is an increasing recognition at all levels of government that the State should encourage regional collaboration in planning for future development in order to promote sustainable communities and smart growth development. The State should encourage that trend and aggressively pursue new federal funding opportunities to support such coordination.

The State should also continue the initiatives of the past four years to help and encourage municipalities to develop and implement local housing plans. Smaller communities need help so they can hire local professional planning staff or consultants. Half of the state's municipalities have fewer than 10,000 residents, and most of these have no professional planning or community development staff.[40]

- **Support legislation to update the State Zoning Act and encourage zoning for affordable housing.** The state's Zoning Enabling Act (Chapter 40A) has long been in need of updating to make land use decisions more predictable and make it easier to zone for affordable housing. After years of effort, the Legislature's Joint Committee on Municipalities reached approval on a bill this June – the Comprehensive Land Use Reform and Preservation Act (CLURPA). CLURPA contains a number of important provisions to support efforts to create affordable housing. These include barring exclusionary zoning practices, authorizing inclusionary zoning without impacting current inclusionary zoning ordinances, 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. It would also authorize impact fees for a defined set of capital costs.

- **Continue to support comprehensive technical assistance to help municipalities to implement local housing plans** through such steps as identifying and developing municipally-owned sites; rezoning areas for more compact development; and working with affordable housing developers. While some technical assistance services for municipalities exist, they should be expanded and strengthened. For example, over 90 municipalities have developed new housing plans, but many need help to ensure that these plans are implemented. Teams of experienced state agency staff and consultants should be assigned to each region of the state, perhaps in partnership with the regional planning agencies, so there is ongoing assistance and follow-through.

- **Continue implementation of Chapter 40R, the state's smart growth zoning law, by providing planning and technical assistance to municipalities.** Passed in 2004, Chapter 40R provides state financial payments to municipalities in return for rezoning certain areas for higher density housing in smart growth locations. A companion provision (Chapter 40S), passed in November 2005, provides reimbursement for certain school costs. A long-term funding source should be dedicated to supporting implementation of 40R without reducing funding for existing affordable housing programs. To date, 30 communities have created 40R zoning bylaws for almost 12,000 units of as-of-right zoned housing, and about 1,000 apartments and condominiums have been completed. A number of other communities completed developments using their own (non-40R) versions of smart-growth zoning.

- **Support legislation to sustain the Community Preservation Act (CPA)** by providing for a minimum state match equal to 75% of the amount locally raised and making it easier for cities to use the Act by allowing them to use resources other than a property tax surcharge to fund their local share. Legislation proposed during the recently concluded session (An Act Relative to Sustaining Community Preservation) would have achieved this and would also make technical changes to enable more flexible use of CPA funds for recreation projects. These changes would encourage more communities to adopt the CPA and thus expand the capacities of municipalities to plan for and create affordable housing and in some cases reduce the state funds needed for such projects. Proposed legislation to clarify that allowed housing uses under CPA includes direct assistance (e.g. down payment assistance, first and last month's rent, and security deposit assistance) should also be supported.

- **Provide technical assistance to communities that have passed the Community Preservation Act (CPA)** and are pursuing specific affordable housing development projects. As of June 2010, 143 communities have adopted CPA, but many are not equipped to navigate the complicated process of facilitating affordable housing development using CPA funds.

- **Provide funding to smaller communities that are facing growth pressures so they can hire local professional planning staff** or consultants and provide regular trainings for municipal staff to ensure that they are up-to-date on the latest state and federal policies, programs, and regulations.

- **Continue efforts to revitalize small and gateway cities.** A number of older small and mid-sized cities in Massachusetts suffer from high unemployment, above average poverty rates, and below average levels of educational attainment. The State should continue initiatives begun by the current administration to help these cities revitalize their economies and their neighborhoods, through planning and infrastructure grants, technical assistance and tax incentives. It should also continue to invest in housing development and redevelopment in these cities.

- **Encourage regional cooperation and formal agreements to promote sustainable development.** The State should work with regional planning agencies and municipalities to encourage coordinated planning around transportation, environment and housing issues. Collaboration is critical to achieve long-term state smart growth goals, including compact development, walkable communities, protection of open space and environmental resources, and reduced reliance on automobiles. It will also increase the likelihood that communities can qualify for planning and implementation assistance from federal housing, transportation and environment programs under the federal Sustainable Communities Initiative.

8. Promote Fair Housing, Accessibility and Choice

Federal fair housing laws ban discrimination in the sale or rental of housing on the basis of race, ethnicity, disability, gender, religion and familial status and seek to increase access to housing opportunities for populations likely to face discrimination. State law provides additional protections against housing discrimination on the basis of age, marital status, military status, sexual orientation, and source of income, including rental vouchers.

Federal laws also provide specific protections for people with disabilities (including but not limited to physical, cognitive and psychiatric disabilities) that require "reasonable accommodations" in policies, procedures and services and reasonable modifications for greater accessibility. These laws also require public agencies to operate housing programs in ways that make them accessible for and do not discriminate against people with disabilities.

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.

Massachusetts and most localities, however, have an obligation to try to address these problems since 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 they will affirmatively further fair housing.

The State has begun a number of initiatives to address the ongoing problem of discrimination and limited housing choice, sometimes in response to litigation, but more work is needed. We urge the following steps over the next four years.

- **Firmly commit to making fair housing enforcement a high priority in state government** and ensure that resources and available tools are deployed for this purpose. Continue support for the Massachusetts Office of Access and Opportunity.

- **Establish production goals for supportive housing and housing for individuals with disabilities, including additional units needed to meet court-mandates.**

- **Support efforts to provide integrated housing options for people with disabilities.** The State should continue its efforts to provide housing options for persons with disabilities in affordable developments that also include non-disabled residents so that true integration is achieved. It should continue to work to ensure that all affordable housing programs are available to people with disabilities.

  It also should continue to provide necessary funding for the Facilities Consolidation Fund and the Community Based Housing Program, both of which provide development subsidies for the Alternative Housing Voucher Program (a rental assistance program for non-elderly persons with disabilities), and for the Home Modifications Loan Program.

- **Work with the Massachusetts Architectural Access Board and other relevant state agencies to ensure that our state accessibility regulations are "substantially equivalent" to federal rules, especially regarding government assisted housing.** This will increase the supply of accessible housing and also lead to greater compliance with accessibility regulations.

- **The Massachusetts Commission Against Discrimination and DHCD should jointly undertake training for municipal officials, housing providers, and others on state and federal fair housing laws.**

- **Continue to provide financial support to MassAccess, the statewide registry of accessible and affordable housing units.** MassAccess is a free program that links people with disabilities with owners and managers of vacant, accessible or barrier free housing, as well as publicizing the availability of all affordable rental and homeownership opportunities.

- **Continue to make the provision of an adequate supply of apartments and homes with 3+ bedrooms that are appropriate to families with children a housing priority.**

9. Support Community Development Corporations and Other Non-profits to Leverage Housing and Community Development Resources

There is growing recognition that comprehensive approaches to community development are the best way to transform places into communities where low and moderate income people can access economic opportunity and build better lives for themselves. Such strategies combine investments in housing, job creation, business development, education, public safety, public health and transportation in a particular place so the residents benefit from the mutually reinforcing nature of these improvements.

The Obama Administration has made this a high priority with its focus on Choice Neighborhoods, Promise Neighborhoods and Sustainable Communities. In Massachusetts, DHCD has promoted this approach through its Gateway City neighborhood planning initiative and many municipalities and CDCs are working to implement such comprehensive approaches as well. CHAPA is working to further support this trend in partnership with the Massachusetts Smart Growth Alliance and the Great Neighborhoods program.

We recommend several steps to support such comprehensive initiatives and in particular to leverage our housing resources toward this effort:

- **Reexamine and reform funding criteria to support housing and community development investments** that are part of broader neighborhood and community improvement strategies.

- **Adopt flexible funding strategies that allow state resources to be invested in ways that respond to local market conditions, advance local community needs, and encourage innovative approaches that might not fit within narrow state and federal funding silos.** This means that the state needs to support a diverse array of housing developments from large rental housing developments to smaller rental projects to homeownership units.

- **Initiate inter-department collaboration that helps to align funding from different agencies and programs** in a coordinated approach to particular neighborhoods and communities, as the current Administration has begun to do with its initiative in Springfield.

The legislature recently passed and the Governor signed legislation that updated the 35 year-old Community Development Corporation (CDC) enabling statute in order to strengthen the field and promote greater innovation and impact in the future. The law builds on the extraordinary success of the CDC field over the past three decades – success that grew out of an intentional, coordinated and robust public/private partnership designed to build, support, and sustain local community-based development organizations. The next Administration needs to use this law to redouble those efforts to strengthen and expand the CDC sector so that it can partner with state and local government as well as the private sector to create places of opportunity throughout the state. Such an effort should include the following steps:

- **Quickly implement the new CDC certification procedures so that non-profit organizations can apply for certification.** This program should be designed to make the process efficient and to enable a broader range of non profits to qualify for certification than would have been possible under the old statute.

- **Consider adopting incentives and benefits for "certified CDCs"** that both encourage groups to apply for certification and help to strengthen their organizations over time. This might include: set asides of funding in certain programs; favorable financing terms and structures; direct funding of CDC programs tied to performance measures; additional incentives for bank support and participation under the state CRA law; and funds for technical assistance funds and capacity building.

END NOTES

1. See "Facts At a Glance: Median Household Income Flat in Mass. between 2007 and 2008", Massachusetts Budget and Policy Center, Boston, MA for 2000-2008 trends. The 1999 median household income (in 2008 dollars) was $64,984, while the 2008 median was estimated to be $65,401.
2. Rebecca Loveland, Robert Nakosteen, Raija Vaisanen and Roy Williams, "Income Inequality in Massachusetts, 1980-2006", MassBenchmarks, Volume 10, Issue 2, 2008
3. Annual median single family home sale price data from the Warren Group. The nominal median household income in Massachusetts in 1999 was $50,502, while the estimated 2008 median was $65,401.
4. 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.
5. University of Massachusetts Donahue Institute, "The 2009 UMass Donahue Institute/CHAPA Housing Poll", Boston, MA, April 2009, see page 3.
6. Michael E. Porter, "Massachusetts at a Crossroads: Renewing the Competitiveness of Boston and the State", John LaWare Leadership Forum, Boston, MA, March 24, 2009, see slide 7
7. Robert Clifford, "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures", Federal Reserve Bank of Boston - New England Public Policy Center, Discussion Paper 10-1, June 2010, page 1. Available online at http://www.bos.frb.org/economic/neppc/dp/2010/neppcdp1001.pdf
8. DHCD staff, August 25, 2010.
9. "2010-2014 Massachusetts Consolidated Plan", Massachusetts Department of Housing and Community Development, Boston, MA May 2010, pages 11-1
10. A total of 39,913 foreclosure deeds were filed between January 2006 and June 2010, according to Warren Group news articles.
11. According to the Mortgage Bankers Association, 8.11% of the 815,285 Massachusetts mortgages on 1-4 unit properties serviced by their respondents were 90+ days overdue or in foreclosure proceedings. See "National Delinquency Survey Q1 2010 – Data as of March 31, 2010", page 3.
12. Massachusetts Executive Office of Labor and Workforce Development , Current Employment Statistics (CES-790) for the Construction Industry, by month and year, shows that construction employment fell steadily between April 2006 before showing modest improvement in April and May 2010. As of May 2010, construction employment in Massachusetts totaled 106,500, down by 35,400 from May 2006 (141,900).
13. Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance, "Profile of Massachusetts Unemployment Insurance Claimants – April 2010",
14. "Governor Patrick Announces State to receive $4.5 Million from MacArthur Foundation to Preserve Affordable Rental Housing", press release, February 26, 2009.
15. Massachusetts "Expiring Use Database", CEDAC, June 2010
16. In 2005 and 2006, the Romney Administration backed away from preservation, suspending the use of two state-funded preservation programs and giving new production first priority for other funds.
17. NO. 2005-5119-3A, Independent State Auditor's Comprehensive Report on the Physical Condition of and Resources Allocated for the Operation and Upkeep of State-Aided Public Housing in the Commonwealth of Massachusetts, October 5, 2006.
18. John Stainton and Charleen Regan, "Protecting the Commonwealth's Investment: Securing the Future of State-Aided Public Housing", prepared for the Boston Housing Authority and the Cambridge Housing Authority in partnership with Citizens Housing and Planning Association, Boston, MA, June 2001, page 19.
19. Economic and Public Policy Research Unit, University of Massachusetts Donahue Institute and Bonnie Heudorfer, "The State of the Massachusetts Housing Market: A Statewide and Regional Analysis", for the Massachusetts Department of Housing and Community Development, November 2008, page 68.
20. Robert Clifford, "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures", Federal Reserve Bank of Boston - New England Public Policy Center, Discussion Paper 10-1, June 2010, page 8. Available online at http://www.bos.frb.org/economic/neppc/dp/2010/neppcdp1001.pdf
21. Though a 5% vacancy rate is often described as indicated that shows a rental market is in equilibrium (with enough supply to keep rents from rising excessively and enough demand to keep rents from falling), most economists agree that the appropriate rate varies by locality, and that 5% is often too low. See Eric Belsky, "Rental Vacancy Rates: A Policy Primer", Housing Policy Debate, Volume 3, Issue 3, 1992. http://www.knowledgeplex.org/kp/text_document_summary/scholarly_article/relfiles/hpd_0303_belsky.pdf

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23. Massachusetts 2010-2014 Consolidated Plan, page 57.

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25. 2009 HUD Annual Homeless Assessment Report to Congress, page 163-164

26. Dennis P. Culhane and Thomas Byrne, "Ending Family Homelessness in Massachusetts: A new Approach for the Emergency Assistance (EA) Program", white paper commissioned by the Paul and Phyllis Fireman Charitable Foundation, Boston, MA 2010, page 8.

27. Massachusetts Department of Education 2010 Grant Notice

28. Commonwealth of Massachusetts, Report of the Special Commission Relative to Ending Homelessness in the Commonwealth, December 28, 2007

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30. Jenifer McKim, "New Approach to Emergency Housing Urged", Boston Globe, May 11, 2010 and Nancy Gonter, Springfield Republican, "Number of homeless families living in motels decreasing, but Massachusetts still spending close to $2 million a month", Gerry McCafferty, "News Report Provides Status Update on Family Homelessness in Massachusetts"

31. A recent study found that the families returning to the shelter system after assistance now comprise 40% of shelter eligible families in New York City. See "Boomerang Homeless Families: Aggressive Rehousing Policies in New York City", Institute for Children, Poverty and Homelessness, New York, N.Y., Summer 2010

32. Culhane and Byrne, pages 4 and 17.

33. See New York City Department of Homeless Services' Critical Activities Reports

34. The Warren Group, "Year in Numbers 2006" and annual summaries from 2007 forward.

35. Decennial Census 2000 and American Community Survey 2008.

36. 2010-2014 Consolidated Plan, page 29

37. Tim Davis, "Foreclosures Up Overall, On Wane in Some Areas", Foreclosure Monitor, Massachusetts Housing Partnership, Boston, MA, April 28, 2010.

38. For example, John Fraser, "2008 Foreclosures by Property Type for Lowell and Lawrence", Merrimack Valley Housing Report, UMass Lowell and the Middlesex North Registry of Deeds, July 2008, found that 73% of the properties foreclosed upon in 2008 in Lawrence were multi-family properties.

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40. Massachusetts 2010-2014 Consolidated Plan, page 40.

APPENDIX 1: Low and Moderate Income Housing Affordability Problems

High housing costs have particularly serious consequences for households with low and moderate incomes, and especially for those with extremely low incomes, because housing is the largest single expense most low and moderate income households face. As of 2005-2007, an estimated 303,000 very low income Massachusetts households paid over half their income towards their housing costs. The figure is most likely higher today, given the rise in unemployment.

While affordability isn't the only problem facing low and moderate income households, it is the major one. Other problems (overcrowding, living in substandard housing or living in institutional settings because specialized housing is unavailable) often co-exist with an affordability problem.

<u>Defining Affordability</u>
Economists define the maximum households can "afford" to spend on housing as total household income less the amount needed to cover basic needs (food, clothing, transportation and medical care). For simplicity, the U.S. Department of Housing and Urban Development (HUD) currently calls housing costs (rent plus basic utilities or mortgage and property tax payments) affordable if they consume no more than 30% of a household's income.

Table 1: Housing Affordability Problems in Massachusetts (2005-2007 Census estimates)

	Total Households	Paying 30.1-50%	Paying >50%	% with severe burden	% with severe or moderate cost burden	Income bracket share of total w/severe burden
Renters						
0-30% AMI*	271,725	45,820	142,305	52%	69%	72.4%
31-50% AMI	141,585	58,535	42,125	30%	71%	21.4%
Subtotal	413,310	104,355	184,430	45%	70%	93.9%
51-80% AMI	168,410	64,635	10,635	6%	45%	5.4%
>80% AMI	276,230	19,815	1,400	0.5%	8%	0.7%
Total Renters	**857,950**	**188,805**	**196,465**	**23%**	**45%**	**100.0%**
Owners						
0-30% AMI	104,740	20,920	69,030	66%	86%	33.5%
31-50% AMI	131,275	36,550	49,715	38%	66%	24.1%
Subtotal	236,015	57,470	118,745	50%	75%	57.6%
51-80% AMI	241,200	74,005	52,545	22%	52%	25.5%
Subtotal	477,215	131,475	171,290	36%	63%	83.2%
>80% AMI	1,113,440	187,990	34,690	3%	20%	16.8%
Total Owners	**1,590,655**	**319,465**	**205,980**	**13%**	**33%**	**100.0%**
All						
0-30% AMI	376,465	66,740	211,335	56%	74%	52.5%
31-50% AMI	272,860	95,085	91,840	34%	69%	22.8%
Subtotal	649,325	161,825	303,175	47%	72%	75.3%
51-80% AMI	409,610	138,640	63,180	15%	49%	15.7%
>80% AMI	1,389,670	207,805	36,090	3%	18%	9.0%
Total Households	**2,448,605**	**508,270**	**402,445**	**16%**	**37%**	**100.0%**

*HUD Area Median Family Income adjusted for household size

HUD limits this definition of affordability to households with incomes at or below 80% of the area median family income adjusted for household size ($58,000 for a household of three in Greater Boston in 2010; $56,300 in the Springfield area).[1] They set this 80% limit because the cost of meeting basic needs is relatively fixed, with the result that middle and upper-income households can afford to pay a higher percentage of their income for housing.

Low or moderate income is generally defined as a household earning no more than 80% of the HUD area median income (AMI), adjusted for household size. However, most analyses of housing needs divide this group into three income brackets:

- Extremely low income (incomes ranging from 0-30% of area median)
- Very low income (between 30.1% and 50% of area median) and
- Low to moderate income (between 50.1% and 80% of area median).

As one would expect, the most serious affordability problems are concentrated among households that are "extremely low income" or "very low income". This is particularly true of renter households. In 2005-2007, extremely low income households made up 72% of the renters in Massachusetts paying more than half of their income for housing and very low income renters another 21%. The heart of the problem is the lack of private, unsubsidized housing at rents these households can afford.

- In 2010, an extremely low-income household of three in Greater Boston earning exactly 30% of the HUD area median in 2010 ($24,800) could "afford" to pay $620/month for rent and utilities at 30% of income.
- A "very low income" Greater Boston household of three at the top of that income range, earning 50% of AMI ($41,350) could afford to pay $1,034 a month for rent and utilities.

With very little private unsubsidized housing in this price range, almost every extremely-low or very-low income renter household in Massachusetts living in unsubsidized housing pays more than 30% of their income for housing and most pay more than 50%. Homeowners in these brackets also face significant cost burdens (see Table 1).

Severe Cost Burdens

In HUD terminology, a household has a "severe cost burden" if it is extremely low or very low income and it pays more than 50% of its income towards its housing costs. It has a "moderate cost burden" if it pays 30.1% to 50% of income for housing.

Census estimates (based on data from 2005 through 2007) show the number of households with moderate or severe housing cost burdens has risen significantly since 1999, both nationally and in Massachusetts, reflecting the rise in housing costs, wage stagnation for most low-income earners, and limited growth in housing assistance. In 1999, according to the 2000 Census,[2] over 236,000 Massachusetts households had severe cost burdens, including over 147,000 renter households and almost 89,000 homeowners. By 2005-2007, over 303,000 households had severe cost burdens (up by 28% or almost 67,000 households), including about 184,000 renters and 119,000 owners.[3]

Despite the growth in affordability problems, State spending on housing programs is still below 1990 levels. Federal assistance has also declined dramatically since 1995. Despite the growth in the number of extremely low income renters, state-funded rental assistance serves 14,000+ fewer households than in 1990 and 2,100 fewer than in 2000. Net additions to the affordable housing stock have averaged about 1,200 units annually (excluding group homes and homeowner rehab loans) since 1997.

Table 2: Increase in the Number of Households with Severe Cost Burden (1999 Census compared to 2005-2007 Data)

	Change in total house-holds since 1999	Change in number of households with severe burden since 1999	% Change in number of households with severe burden
Renters			
0-30% AMI*	18,355	23,474	19.8%
31-50% AMI	-9,029	13,659	48.0%
Subtotal	9,326	37,133	25.2%
51-80% AMI	-279	3,887	57.6%
>80% AMI	-86,222	-412	-22.7%
Total Renters	-77,175	40,609	26.1%
Owners			
0-30% AMI	10,111	14,524	26.6%
31-50% AMI	11,970	15,236	44.2%
Subtotal	22,081	29,760	33.4%
51-80% AMI	43,107	26,793	104.0%
Subtotal	65,188	56,552	49.3%
>80% AMI	17,233	19,343	126.0%
Total Owners	82,411	75,895	58.3%
All			
0-30% AMI	28,466	38,031	21.9%
31-50% AMI	2,941	28,949	46.0%
Subtotal	31,407	66,980	28.4%
51-80% AMI	42,828	30,903	95.7%
>80% AMI	-68,989	18,931	110.3%
Total Households	5,236	116,815	40.9%

1. HUD updates income limits annually. It should be noted that the 80% limit in some areas, including Greater Boston, is actually below 80% of the area median family income because of a statutory requirement that a locality's 80% limit can't exceed the national median family income except in areas with disproportionately high housing costs. http://www.huduser.org/portal/datasets/il/il10/index.html
2. U.S. Department of Housing and Urban Development 2000 CHAS data, http://socds.huduser.org/chas/statetable.odb
3. Data sources: U.S. Census: Massachusetts DP-4. Profile of Selected Housing Characteristics 2000 and HUD 2009 CHAS Data for Massachusetts (see http://www.huduser.org/portal/datasets/cp.html)

APPENDIX 2: Current Affordable Housing Inventory

Massachusetts has about 204,000 units of affordable subsidized housing[1] built or in construction, excluding group homes and homeowner rehabilitation loans. Over three quarters of these units were developed between 1950 and 1984, including over 70,000 units developed between 1972 and 1984, using programs such as state and federal public housing, that are no longer producing new units. Since 1983, this count has increased by only 39,000 units, and only by about 15,000 units since 1997 (or about 1,200 units a year). The decline in net additions since 1997 has several causes, including the need to invest funds to preserve the existing inventory, the decline in federal funding for new production and losses from the affordable inventory due to expiring use restrictions, expiring subsidy contracts and the downsizing of existing developments

In addition, about 80,000 Massachusetts households have tenant-based rental vouchers.[2] Some use them to rent units in the subsidized developments above, while many others use them to rent private, unsubsidized units. The vast majority of these vouchers (75,700) are funded by HUD's Section 8 program, with the remaining 2,300+ funded by State rental assistance programs. Overall, the total number of tenant-based vouchers authorized has increased by about 21,000 since 1996 - as the number of Section 8 vouchers grew by about 26,000 and the state-funded Massachusetts Rental Voucher Program (MRVP) contracted by 5,000 – but the actual increase in households assisted is lower. At least 6,000 of the new Section 8 vouchers were awarded specifically to assist tenants who were losing other forms of state or federal housing assistance, including project-based rental assistance.

Current Subsidized Housing Inventory (Affordable Units) by Year Developed through 2006

Direct Subsidy Programs

Original Funding Program[3]	Pre-1985	1985-1995	1996 forward	Total[4]
*State Public Housing	44,902	4,428	124	49,718
*Federal Public Housing	33,070	418	124	33,612
*HUD Sec. 221d3 BMIR/MR	10,168	-	-	10,168
*HUD Sec. 236/MHFA Sec. 13A	33,106	-	-	33,106
*HUD Sec. 8 New Construction/Substantial Rehab	25,527	225	-	25,752
HUD Sec. 202/811 (Elderly/Disabled)	5,437	2,821	2,527	10,819
Other Low Income Housing Tax Credit (LIHTC)*	-	2,185	5,805	7,990
*HUD Sec. 8 Other (Mod Rehab, etc)	2,797	2,136	-	4,949
Other State/Fed	130	2,155	4,642	7,128
*SHARP/RDAL	400	3,626	-	4,026
U.S. Rural Housing Service	1,406	860	164	2,430
80-20 Tax Exempt Bonds	227	591	1,346	2,164
Group Homes (FCF/DMR/DMH)	16	40	240	4,442
Subtotal	157,096	19,485	14,972	196,274

Shallow Subsidy Programs

Original Funding Program[5]	Pre-1985	1985-1995	1996 forward	Total
NEF, Housing Starts, ERA	-	-	2,703	2,703
Local Initiative Program/Inclusionary	81	543	1,020	1,644
*HOP	-	1,505	20	1,525
Subtotal	81	2,048	3,743	5,872
TOTAL	**157,177**	**21,533**	**18,715**	**202,086**

*indicates program no longer funding new units

1. CHAPA estimate based on DHCD's Subsidized Housing Inventory (SHI) as of May 2010 plus updates. This figure assumes 95% of the SHI units in Boston are affordable and excludes about 3,400 units assisted under homeowner rehabilitation loans and about 12,000 beds in DMR/DMH supported residences. The latter are excluded from the comparison due to a lack of data on when they were created (DHCD only began including them in the SHI in 2001
2. HUD's Resident Characteristics Report dated July 1, 2010 indicates that Massachusetts housing authorities have funding to support 75,709 vouchers. This figure includes over 1,200 vouchers with project-based features under the Housing Choice Voucher program project-based voucher program and the Section 8 homeownership program.
3. Projects are listed by their original funding source. Many older developments have since been refinanced and recapitalized under newer programs, such as the federal Low Income Housing Tax Credit (LIHTC) program (over 14,000 units) and state preservation programs. "Other LIHTC" only lists projects initially financed with tax credits. Overall, the LIHTC program has helped finance over 22,000 units. "1996 Forward" column includes some projects that will not come on line until 2007 or later.
4. 'Total" column includes 4,661 units (primarily group homes) for which information on year developed is missing.
5. Projects are listed by their original funding source. Many older developments have since been refinanced and recapitalized under newer programs, such as the federal Low Income Housing Tax Credit (LIHTC) program (over 14,000 units) and state preservation programs. "Other LIHTC" only lists projects initially financed with tax credits. Overall, the LIHTC program has helped finance over 22,000 units. "1996 Forward" column includes some projects that will not come on line until 2007 or later.

APPENDIX 3: Funding Sources for Affordable Housing

The current low level of growth in the subsidized inventory and the recent shrinkage in tenant-based vouchers result from declining state and federal funding for affordable housing.

Federal programs provide the majority of funding for the development and operation of affordable housing and for rental assistance in Massachusetts, though the real value of this funding has declined significantly over the years. HUD grants and direct payments totaled over $2.3 billion in FY2009.[1] Much of this goes to local housing authorities, local governments and others to support the ongoing costs of rental assistance and public housing.[2] However, DHCD has significant control over the use of some of this funding and its priorities play a major role in shaping new affordable housing production in terms of location and the income groups assisted and the extent to which older housing at risk of losing affordability is preserved.

Today, major federally-funded housing resources include the following:

Table 3: Total DHCD State-Funded Spending All Programs 1989-2010 (in millions)

Fiscal Year	State Operating Funds	State Capital	Total State Funds
1989	208	202	410
1990	224	156	380
1991	200	75	275
1992	196	28	224
1993	174	33	207
1994	138	34	172
1995	136	47	183
1996	137	65	202
1997	132	69	201
1998	132	80	212
1999	136	83	219
2000	138	85	223
2001	161	79	240
2002	138	106	244
2003	96	112	208
2004	68	121	189
2005	80	122	202
2006[a]	113	131	244
2007	96	113	309
2008	128	191.5[b]	318.5
2009	139	193[c]	322
2010	115[d]	168	283
Change FY89-FY10	93	34	127
% Decrease FY89-FY10	45.7%	17%	31%

- The Section 8 program currently funds about 75,700 tenant-based vouchers (including 19,000 controlled by DHCD) and 67,000 project-based vouchers assigned to private developments.[3]

- The federal public housing program provides operating subsidies and modernization funds for 33,200 apartments owned by 66 local housing authorities.[4] This inventory will rise by 3,800 units over the next two years as certain state public housing developments become federalized.

- The Low-Income Housing Tax Credit (LIHTC) program is the largest single source of funding for developing new affordable housing and preserving existing housing. It provides states with an annual allocation of "9%" tax credits based on population. DHCD uses a competitive process to decide which projects will receive credits and how much, based on state housing priorities. Developers sell the credits to private investors in exchange for equity contributions. Since late 2008, program operations have been hurt by recession, as a decline in the number of buyers (many long-time buyers of tax credits have less or no income to shelter) which has led to a 20%+ reduction in the price investors will pay for credits and thus reduced the amount of equity each credit dollar raises. Many investors are now also demanding onerous guarantees. Massachusetts' 2010 allocation of 9% credits ($13.65 million) will raise about $95 million in private equity if credit prices average 70 cents. The program has financed the development and preservation of over 41,000 units to date.

- The tax-exempt bond program is another federally supported resource for developing new affordable multifamily housing and preserving existing developments. The federal government provides a tax exemption for interest income on bonds sold for a range of public purposes, including mortgages for mixed-income rental housing; the exemption lowers the interest rate investors require. The federal government sets an annual tax-exempt bond volume cap for each state and it is up to DHCD to determine how much of the cap to allocate to MassHousing and MassDevelopment for multifamily housing bonds. (Borrowers can also receive small allocations of federal

a. Estimated capital

b. Includes $20 million contribution from MassHousing

c. Includes $20 million contribution from MassHousing

d. Excludes Emergency Assistance, Individual Shelter Funding and Shelter Administration funding from DHCD budget. There accounts were transferred to DHCD from DTA in FY10.

low income housing tax credits called 4% credits). This program has also been hurt by the recession since 2008.

- Two annual formula grant programs – Community Development Block Grant (CDBG) and HOME – provide DHCD and 37 larger cities and towns with funds ($165.6 million in federal fiscal year 2010) for community development and housing programs.[5] Recipients choose the mix of activities they wish to fund. About 31% of this money ($51 million, including $36 million in CDBG and $15 million in HOME) is controlled by DHCD, which uses a competitive process to re-allocate it to local projects.

- HUD's "Continuum of Care" homelessness assistance program provides grants to states, localities and nonprofits for outreach, support services, rental assistance and the development of permanent affordable housing. Funds are awarded through an annual competition. Massachusetts programs were awarded $61 million in federal fiscal year 2009.[6]

State-funded programs provide most of the funding for the emergency shelter system for homeless families and individuals ($162 million in DHCD funds alone). State funds also play a critical role in affordable housing production and preservation, funded through DHCD's budget, though the amount provided today is 31% below the amount provided in FY89 even without adjusting for inflation (see Table 3). In the past, state-funded rental assistance programs were also a major force in affordable housing development and homelessness prevention, peaking in 1990, when they assisted 20,000 households. Since the 1990 budget crisis, however, funding cutbacks have shrunk these programs steadily and today they assist only 5,100 households.

Today, major state-funded housing programs and FY2011 funding levels – excluding spending for the homeless shelter system – include the following:

- State public housing: This program provides operating subsidies and capital funding for about 49,000 units (49,400 units as of December 31, 2008, becoming 45,600 units over the next two years as HUD assumes financial responsibility for about 3,800 units). The FY2011 adopted budget provides $62.5 million for operating subsidies and the capital plan provides $87 million for modernization.

- Grants, loans and tax credits for private housing development and preservation: The state low income housing tax credit program offers $20 million in credits to investors in affordable housing and the State's capital budget includes $63 million for five bond-funded grant and loan programs:
    - the Affordable Housing Trust Fund (AHTF) - $35 million
    - the Housing Innovations Fund (HIF) - $9 million
    - the Capital Improvement and Preservation Fund - $5 million
    - the Housing Stabilization Fund (HSF) - $13 million
    - Housing at Transit Nodes - $1 million

- Housing for people with disabilities: The capital budget includes $7.5 million for the Facilities Consolidation Fund to provide community-based housing for people leaving DMR and DMH institutions plus $5 million for other types of community based housing.

- Rental assistance: The FY2011 adopted budget includes $40.65 million to provide rental assistance to 5,000 households, including $33.2 million for 3,100 project-based vouchers assigned to older MassHousing and other developments and about 2,000 mobile vouchers under the Massachusetts Rental Voucher Program (MRVP). The remaining $7.45 million funds about 700 vouchers for DMH clients and other households with disabilities.

- Homelessness prevention: The FY2011 budget provides $260,000 for a homelessness prevention program called Residential Assistance for Families in Transition (RAFT) that provides one-time financial assistance to very low income families. In FY2009, the program was funded at $5.5 million.

1. "Consolidated Federal Funds Report for Fiscal Year 2009 – State and County Areas", U.S. Census Bureau, Tables 3 and 4.
2. "Federal Aid to the States for Fiscal Year 2009", U.S. Census Bureau, pages 10-12.
3. The tenant-based voucher count is based on the HUD Resident Characteristics Report for Housing Choice Voucher program in Massachusetts as of August 31, 2010; the project-based Section 8 count is based on HUD's Section 8 Contract database as of June 2010, plus HUD's Resident Characteristics Report for the Section 8 Moderate Rehabilitation and Moderate Rehabilitation SRO programs.
4. "A Picture of Subsidized Households 2008", HUD.
5. See http://www.hud.gov/offices/cpd/about/budget/budget10/ for details
6. Per HUD announcement http://hud.gov/offices/cpd/homeless/budget/2009/09_massachusetts_totals.xls