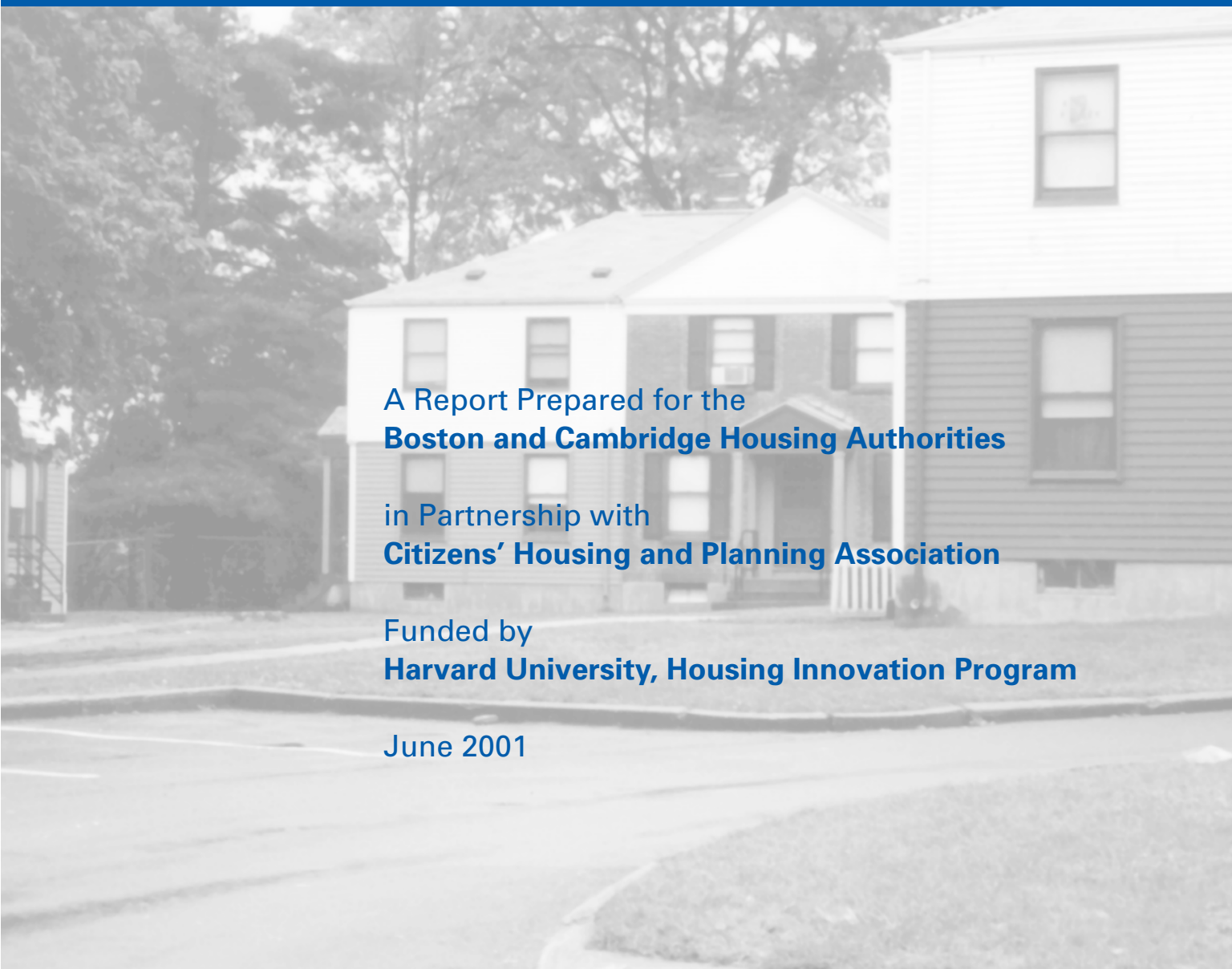
Protecting the Commonwealth's Investment

Securing the Future of State-Aided Public Housing



A Report Prepared for the
Boston and Cambridge Housing Authorities

in Partnership with
Citizens' Housing and Planning Association

Funded by
Harvard University, Housing Innovation Program

June 2001

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Acknowledgements

The study was produced for the Boston Housing Authority (BHA) and the Cambridge Housing Authority (CHA). The Citizens Housing and Planning Association (CHAPA) Public Housing Advisory Committee provided review and input while CHAPA staff provided administrative coordination.

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Funding:
The Harvard Housing Innovations Program (HHIP) through the Office of Government, Community and Public Affairs provided funding for this report to the collaboration of the Boston Housing Authority and the Cambridge Housing Authority.

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A small working committee of Daniel Wuenschel, and Michael Felony from the CHA; Deborah Goddard from the BHA, and Aaron Gornstein and Chris Norris from CHAPA participated in designing the study and reviewing and critiquing it from inception through the final draft. Their contribution set the direction and contributed enormously to the report's vision. Susan Cohen drafted key portions of the proposed legislation. Her legal advice and practical experience in housing authority procurement and mixed-finance transactions helped the team to craft many of the legislative recommendations.

Reader and Advisor:
Gregory Byrne carefully read and commented on the preliminary drafts of the report. His insights into public housing management and capital planning, as well as helpful suggestions about the organization of the report, made it a more useful document.

The Massachusetts National Association of Housing and Redevelopment Officials:
Thomas Connelly, Executive Director, provided context and history about the Massachusetts inventory and housing authorities.

Department of Housing and Community Development:
The staff from DHCD generously provided technical assistance to the CHAPA Public Housing Advisory Committee over many meetings. The authors of the report appreciate the invaluable assistance and wealth of information provided by the staff. Their experience and the extensive data they provided informed and enriched this report. The public housing community owes a debt of gratitude to this dedicated staff, led by Marc Slotnick, for their efforts to preserve the inventory with limited resources.

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Advisory Committee:
Chair: Jack Cooper, Massachusetts Union of Public Housing Tenants. Many individuals participated with enthusiasm and knowledge to give the report depth and applicability. Coming together over several meetings to provide direction and information for *Protecting the Commonwealth's Investment*, the committee members provided valuable input from the front lines. Those attending one or more meetings of the committee included:

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Housing authority staff and directors shared hours of time conducting site visits and filling out survey forms for this study. Their time, skill, experience and insight contributed depth and accuracy to this report. Without their specific expertise, generously shared, this report would not have been possible. The authorities visited and their executive directors at the time of the visit include:

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Boston	Sandra Henriquez
Brockton	Richard J. Sergi
Cambridge	Daniel Wuenschel
Chelsea	Michael E. McLaughlin
Chicopee	James Lynch
Fall River	Daniel McDonald (acting)
Framingham	William Casamento
Gloucester	William Dugan
Holyoke	Raymond Murphy
Lawrence	Don O'Neill
Lowell	James L. Milinazzo
Needham	Cynthia Howe
New Bedford	Joseph Finnerty
Northampton	Jonathan Hite
Quincy	John G. Mather
Revere	Andrew Procopio
Somerville	Joseph Macaluso
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Wellesley	Louis Malerba Jr.
Worcester	Ruth Carlson

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Executive Summary

The Commonwealth of Massachusetts has a valuable resource in its state-aided inventory of 50,000 public housing units located in 246 communities throughout Massachusetts. The developments offer a range of housing choices to serve low-income families, the elderly and people with disabilities. These developments have provided safe, decent and affordable housing. However, as with any aging resource, thoughtful stewardship and timely investment in its care are necessary so that it can serve future generations.

Protecting the Commonwealth's Investment: Securing the Future of State-Aided Public Housing assesses the Commonwealth's portfolio of public housing and proposes strategies to aid in its preservation.

In June 2000, Harvard University awarded a grant to a partnership of the Boston and Cambridge Housing Authorities (BHA and CHA) to undertake a study of state-aided family and elderly/disabled housing. The purpose of the study was to document the state inventory's capital needs and to make recommendations regarding the level of funding and the administrative and statutory changes necessary to give local Massachusetts housing authorities the tools to preserve and improve this important resource.

The Public Housing Advisory Committee of the Citizens' Housing and Planning Association (CHAPA) joined with the BHA and CHA in the study's design and oversight to ensure that the analysis and recommendations were accurate and broadly applicable and had the support of the stakeholders committed to the long-term viability of the program.

The partners in the study believe that state-aided public housing, which serves the Commonwealth's lowest-income households, is critically important in the affordable housing continuum of the Commonwealth. The primary objective of the public housing partners involved in the report is the long-term preservation and improvement of state-aided public housing as a resource for low- and very low-income households.

Preservation of existing housing is the fiscally prudent course of action at a time when Massachusetts faces an increased demand for affordable housing. While preservation will require additional funding, loss and replacement of the units would be much more expensive in both fiscal and human terms.

The report concludes that increased funding, combined with new models of financing and regulatory reforms to increase efficiency and cost-effectiveness, can improve the existing stock, protect the Commonwealth's investment, and preserve the housing well into the future.

I. BACKGROUND

Massachusetts has invested millions of dollars in the development and maintenance of its 50,000 public housing units.[1] This investment has created a base of decent and safe housing and has provided homes for generations of Massachusetts citizens.

Massachusetts was among the first states to undertake the construction of state public housing. Beginning in 1948, family housing was constructed in response to the post-war affordable housing crisis for returning veterans. More than 15,000 units were constructed in four short years. In 1954, Massachusetts was again first in constructing elderly housing. More than 32,000 elderly units were created.

These units, many constructed half a century ago, are serviceable but old. Modernization funding

[1]Expenditures for the development and modernization of the stock from 1948 through 2000 have been, according to the Commonwealth's Department of Housing and Community Development, approximately $1.521 billion.

through past housing bond bills has helped maintain the stock, but as the housing continues to age, the capital needs intensify and accelerate. Intervention now, before units are lost, is essential.

II. FACTS ABOUT STATE-AIDED PUBLIC HOUSING

Protecting the Commonwealth's Investment examines the public housing program today. The report provides an overview of the authorities, the residents, and the developments that make up the state public housing system.

- The state's public housing inventory is widely dispersed geographically with little concentration. One hundred and one Local Housing Authorities (LHAs) have fewer than 100 units of housing. Only 15 have more than 1,000 units.
- Most family units are in relatively low-density townhouse or duplex developments with private entries. Massachusetts state public housing, while aging, does not face the severe problems that plague other parts of the country where large family high-rises are located in dense clusters.
- Waiting lists for family developments are long. Some households may wait several years or more before they can be housed. In some communities waiting lists for elderly housing have declined. Changing demographics, elderly needs, and increased competition have contributed to this decline.
- The public housing portfolio serves some of the Commonwealth's lowest-income citizens. Average family and elderly household incomes are below $15,000 per year.
- More than 60% of the units need operating subsidy from the state to fill the gap between what residents can pay and the costs of operating the housing. Most of these units are in family housing.
- 235 LHAs manage the 50,000 state public housing units. Sixty-six of these authorities also manage the 34,000 federal public housing units in Massachusetts.

III. KEY FINDINGS

Analyzing the state system in comparison with the federal public housing system, the report finds that state public housing is underfunded relative to federal developments. Despite similarities in development, construction, age, and demographics, state-aided housing receives substantially less funding per unit than federally assisted public housing.

- On average, state operating subsidy is only 72% of federal funding for federal public housing units.
- State modernization funding is less than one-half the amount allocated to federal units. The federal Department of Housing and Urban Development (HUD), by formula allocation, spent $75 million in FY 2001 on the 34,000 federal units, while Massachusetts spent $42 million on the 50,000 state units.
- Not surprisingly, state units are generally in worse shape with a longer backlog of capital needs and repairs than the federal units. Striking differences in quality between state and federal units within the same community can be observed.
- The federal formula approach, by which LHAs receive predictable annual amounts based on a formula calculated by unit and age, allows for more comprehensive planning and rehabilitation work in the federal units.
- The Commonwealth's modernization program and the Massachusetts Department of Housing and Community Development's (DHCD) oversight have been critical to the continued use and occupancy of the housing. However, the state's method of providing modernization through bond-funded competitions imposes a piecemeal approach to modernization that does not encourage multi-year capital planning, is often more costly than a more comprehensive and systematic approach, and may not result in the level of improvement necessary for long-term viability.

Using site visits, surveys, DHCD data, cost comparisons, and analysis, the study estimates the cost of capital repair and improvement needs for the portfolio over the next ten years. The report analyzes the state-aided portfolio by unit type and condition and provides cost ranges for work needed to maintain the viability of the housing.

A good portion of the portfolio needs only component replacement to continue its useful life. A modest number of developments will need more comprehensive modernization to improve security and habitability and to continue at full occupancy. Only a very small number of units will need major redevelopment because of extreme deterioration, isolation, or high vacancies. In summary, the study estimates:

- $1.47 billion, or about $30,000 per unit, is needed to stabilize the inventory over the next ten years. The amount per unit is an average, with some developments needing substantially more and many needing less.
- If state funding were increased to provide this level of investment, state spending on capital improvements would bring the Commonwealth closer to the federal investment levels on a per-unit basis.
- The largest amount, more than $750,000,000, will be needed to maintain the viability and useful life of the large inventory of elderly housing units in 235 Massachusetts communities. The age of these units is now beginning to show. Many developments serving the elderly and disabled have deferred maintenance and repair needs because the family housing stock more desperately needed the funding.

IV. RECOMMENDATIONS

The report concludes that state public housing is an important resource that should be preserved for low-income households. While lack of investment has damaged the portfolio, the problems can be solved. Many of the tools that are needed to accomplish its preservation are in place. With additional funding, administrative changes, and a limited number of technical changes to existing laws, LHAs can put these tools to work to preserve public housing.

Strategies for Long-Term Viability

The report identifies a series of strategies to preserve the state portfolio as permanent affordable housing. While the primary need is for more funding, the increase must be accompanied by a fundamental alteration to the system of state housing funding, oversight, responsibility, and accountability.

- **Predictable funding.** The modernization and capital needs funding must be predictable and allow for comprehensive planning by local housing authorities. The system should move to a formula allocation for a substantial portion of modernization funds. The state system should mirror the federal system, so that housing authorities managing both types of housing are not forced to operate under two vastly different systems for similar portfolios. While the increased funding should first reduce the backlog and fund previously committed awards, future funding should move quickly to a formula basis. Funding for larger-scale comprehensive modernization should continue to be available on a case-by-case basis for those developments needing a larger infusion of capital funding.
- **Flexibility and devolution of capital improvement and modernization responsibility to the local housing authorities.** Entrepreneurship and responsibility on the part of the LHAs should be encouraged and supported so that appropriate solutions can be crafted at the local level. Rather than the present modernization system based on staff-intensive DHCD oversight, DHCD should encourage entrepreneurship through flexible regulation and technical assistance. Relaxed oversight, followed by systematic deregulation of LHAs based on DHCD's analysis of LHA readiness and capacity, should be implemented immediately. DHCD's technical assistance, particularly for smaller housing

authorities, has played an important role in helping the smaller authorities manage their construction efforts efficiently. This should continue and expand, as should DHCD monitoring and auditing responsibility. However, larger authorities with federal modernization experience and capacity are the logical choice for the initial demonstration of reduced oversight. This can be followed, after training and capacity building, by more relaxed oversight of smaller LHAs for modest, defined projects.

- **New initiatives.** Local initiatives, innovations, and new partnerships can broaden the capacity and the ability of housing authorities to attract new resources for improving their portfolios and increasing affordable housing in their communities. Funding for pilot projects, which encourage creative local solutions to common problems, should be provided. With targeted funds for innovation and freedom from regulatory barriers, LHAs can demonstrate creative solutions to preserving the inventory.

To reach the level of funding necessary to accomplish the stabilization of the portfolio, additional resources beyond the traditional funding mechanisms should be sought. New partnerships with other public and private funding sources will provide new resources and will impose a new discipline and rigor on the system, thereby helping to improve the quality of the housing. Assumptions about the advisability of mixed finance and income mixing as a potential source of revenue will need to be debated openly and pragmatically in the search for the best methods to improve the housing and the lives of existing and future residents.

V. LEGISLATIVE AND REGULATORY AGENDA

To achieve the appropriate level of funding and to encourage the systemic change that must accompany this, the study recommends a number of legislative and administrative actions. These are summarized below. The report also lists many specific suggestions, large and small, that together begin to create a roadmap for preservation. New, longer-range ideas—like creating a limited new development program to complement preservation activities or expanding LHAs role in producing affordable housing, or converting some surplus elderly housing to family—must be more fully explored. The report provides the basis for further discussion among stakeholders.

The following are five recommendations for immediate legislative action.

Legislative Actions

1. Increase funding subsidy levels to support higher annual operating budgets and include funding for capital reserves.

2. Increase bond authorization for public housing modernization. The state housing bond bill, with $350 million for public housing, should be authorized in FY 2002. Concurrently, the Executive Office of Administration and Finance should continue to increase DHCD's bond cap so that the funding can be spent more quickly.

3. Pass *An Act for the Revitalization of State-Aided Family and Elderly Public Housing.* This $50 million, five-year pilot program provides incentives to communities to protect and revitalize public housing by targeting resources for new approaches and locally generated solutions.

4. Pass *An Act to Preserve the State-Aided Public Housing Stock.* This legislation proposes changes to the 121B enabling legislation in order to give LHAs more flexibility to preserve and create affordable housing through attracting new resources and partners. In addition, the changes make state public housing rules compatible with the new federal public housing legislation, The Quality Housing and Work Responsibility Act (QHWRA) passed by Congress in 1998.

5. Adopt construction reform to accommodate the scale of residential housing modernization and make public housing construction more efficient and cost effective. This report supports the construction reform recommendations of the Cellucci-Swift administration.

Administrative and Regulatory Reform

Many of the necessary changes can be accomplished without legislation. Regulatory and administrative reform must accompany the funding and legislation.

1. DHCD can move to adopt a predictable formula for modernization funding to be phased in within the next funding cycles.
2. This should be accompanied by the staged deregulation of LHAs regarding the use of modernization funding, allowing authorities more control and responsibility for using the funds and overseeing the construction work. This should include appropriate monitoring by DHCD.
3. Deregulation should be encouraged to allow housing authorities to adopt ceiling rents and site-based waiting lists consistent with fair housing and other initiatives based on local conditions.
4. Expand technical assistance to smaller housing authorities and housing authorities proposing mixed-finance transactions to improve their public housing stock and insure continued low-income use.

The debate about the future of state-aided public housing should no longer be whether it can be saved, but how to apply the proper tools to its preservation. The key stakeholders—residents, LHAs, DHCD, the communities, the legislature and the taxpayers—must begin the dialogue. Different agendas and competing constituencies will inform the debate. New strategies challenging old ways of doing business can generate lively and constructive discussion.

With responsible investment, resourcefulness in applying new ideas and tools, and renewed commitment to preserving the state aided housing portfolio, there can be a brighter future for Massachusetts' public housing.

Introduction

A map of state-aided public housing in Massachusetts would show dots from the Berkshires to Boston, from Bedford to Barnstable. Throughout the Commonwealth, in most cities and towns, there is state-aided public housing serving low-income Massachusetts families, the elderly, and people with disabilities. In many communities it is an aging but cherished resource. In others, it is a source of worry about its future health and stability.

The good news is that, despite severe financial pressures, the Massachusetts state public housing inventory is reasonably intact. It remains one of the largest housing programs in the Commonwealth to assist very low-income people.[2] Developments are geographically spread throughout the Commonwealth and offer a range of housing choices and options to low- and very low-income families and elderly and disabled households. Most of the units are occupied and provide decent, affordable housing. Massachusetts has no troubled, vacant family high-rise buildings as can still be found throughout the country's federal program.

Local housing authorities, housing advocates, and DHCD have worked hard to sustain this remarkable resource. However, years of insufficient funding levels have taken a toll on the state's inventory of public housing and have left the inventory limping. Ironically, now that the knowledge of how to preserve public housing and maintain strong communities has matured, we lack the funding to accomplish the primary objective: to preserve and improve our 50,000 units of state-aided housing.

The consequences of underfunding are stark. The inventory continues to age. Most of thte family housing built under the Chapter 200 program between 1948 and 1956 is now a half century old. Family housing, with the longest waiting lists and the most wear and tear, suffers from the minimum space standards and initial underdesign—small rooms, lack of amenities—that were common in public housing of the era. It also suffers from a lack of ongoing investment. Some elderly developments, which made a significant contribution to the quality of life for low-income elders when they were first built, are no longer adequate to serve the changing needs of the elders of the Commonwealth.

As the housing ages, costs to maintain and restore it rise. Declines in the quality of the housing narrow the range of incomes that can be attracted to a development and increase its physical and social isolation. As the costs of repair rise, the developments are more vulnerable to being torn down and lost forever.

PROTECTING THE COMMONWEALTH'S INVESTMENT

The Commonwealth has invested hundreds of millions of dollars to build public housing and to maintain its commitment to serve low-income families, the elderly, and persons with disabilities. DHCD has been dedicated to the preservation and improvement of the inventory. DHCD's committed and capable staff has stretched limited dollars to stabilize the worst of the inventory and mitigate the most egregious health and safety problems. But more can, and must, be done.

[2]Public housing–eligible households are defined as those with incomes below 80% of median. In fact, most households are substantially below that. HUD defines income ranges as follows: 0-30% of median income is defined as extremely low income; 30–50% is very low income; and 50–80% is low income. Most public housing residents fall within the extremely low-income category.

It is critical that Massachusetts' investment and commitment of fifty years be honored and maintained. Increased and predictable infusions of funding, combined with new models of financing and regulatory reforms, can preserve and improve the portfolio. An investment now in the continued viability of the stock will provide a new generation of Massachusetts families, the elderly, and persons with disabilities with decent, safe, and affordable housing for years to come.

Massachusetts is dealing with an affordable housing crisis perhaps unprecedented in its scope and severity. The strong economy Massachusetts has enjoyed is vulnerable if workers leave Massachusetts because they are not able to find affordable housing. Studies from groups as diverse as Massachusetts Institute for a New Commonwealth (Mass Inc.) and the Catholic Archdiocese of Boston have examined the crisis and called for action. Massachusetts must create more affordable housing to meet the need. But first the Commonwealth must preserve its existing affordable housing. It would cost a staggering $6.6 billion to replace the 50,000 units of state-assisted public housing.[3] The cost of responsible repair and stewardship is substantially less.

A PRESERVATION ROADMAP

This report examines the existing inventory in order to document the physical needs and makes recommendations for preserving and improving the stock. By segmenting the physical dimensions of the problem into categories of need and proposing solutions that fit the problem, the report provides a roadmap for future investment. Far from being the insoluble problem that some may fear, with responsible investment the state portfolio can continue to provide good quality housing for thousands of Massachusetts families, elderly, and persons with disabilities.

Increased funding, using appropriate vehicles, is critical. This report attempts to quantify the investment needed and proposes strategies to leverage investment to maximum effect. Without additional funding, in operating and capital accounts, the inventory will continue to deteriorate. With additional funds and improved planning and delivery systems, LHAs can improve the units and ensure their long-term survival. The report proposes financial, legislative, and regulatory interventions that can save and improve our stock of public housing.

The report also examines the issues that frame the preservation debate. Income mixing, mixed finance, access to other state and federal resources, demolition, and replacement are discussed to provide a context for the assumptions that communities and policymakers must wrestle with as they craft solutions.

Practical suggestions and best practices are evaluated for their ability to transform both the quality of the housing and the process by which we spend our scarce resources. The system can be improved to help housing authorities cope with scarce resources more efficiently and to attract new resources.

LHAs must grow and change as their role as housing preservers and producers becomes more critical. Support for their creative efforts is essential. Jim Stockard, an affordable housing practitioner, has exhorted housing advocates to "defend the goals, not the system."[4] While keeping our eye on the first principle (preserving and improving public housing to serve low-income residents) the public housing community needs to embrace change in how business is done. This report identifies reforms and improvements that move LHAs down that road.

In 1962, *The Journal of Housing*, in an overview of the federally-aided public housing program declared that public housing faced a crossroads:

[3]At an average new construction cost of $175,000 per family unit and $125,000 per unit for elderly unit replacement.

[4]James G. Stockard, Jr. 1998. "Public Housing: the Next Sixty Years," *New Directions in Urban Public Housing*, page 254. Mr. Stockard has served as a District Superior Court appointed Special Master to the Department of Public and Assisted Housing (The D.C. LHA) and is currently Curator of the Loeb Fellowship at the Graduate School of Design, Harvard University.

> The formulas, mechanisms and traditions that have grown and evolved as a part of the public housing program will have to undergo more change, more refinements, more strengthening if public housing is to become a major working partner in the housing programs of the nation. Such change requires imagination, effort and ideas. For public housing the time seems to be now for the evolution of a stronger spirit from which growth and change can spring, to carry it into a position of equal partnership and leadership with all elements of a total housing program.[5]

Those words ring true today, forty years later, as we embark upon a program to reinvest our funds and energy in preserving the Massachusetts public housing stock.

[5] 1962 *The Journal of Housing.* No 8, page 440.

1

History and Characteristics of State-aided Public Housing

This first section of the report includes a brief history of the Commonwealth's public housing program over the past fifty years. It summarizes the major reductions in the inventory over this fifty-year period, reviews the program as it exists today, including the number and distribution of units, the size of housing authorities and developments, building types, occupancy characteristics, and operating costs.[6]

A FIFTY-YEAR COMMITMENT TO PUBLIC HOUSING

In the fall of 1999, the Boston Housing Authority celebrated the fiftieth anniversary of the opening of Faneuil, a state-aided family development in Brighton. Many residents and public officials attended the celebration. Together they honored twelve women who were fifty-year residents. These women had lived through the best of times and worst of times at Faneuil.

The Faneuil story is one that began with great hope and expectation, as returning veterans of World War II settled with their families in the more than 15,000 units created throughout the Commonwealth during an intense four-year building program. The twelve women arrived as young wives and mothers and raised their families among the working poor in Brighton. They were lucky to have the housing in those days of shortage. Very poor people could not afford to live in public housing. Because incomes had to be sufficient to cover operating costs, only working families could afford it.

Over time, the population and economics of management changed. Rents, statutorily capped at no more than 25% of income by the "Baby Brooke" Amendment in 1971, no longer covered operating costs and the Commonwealth began to provide operating subsidy to make up the difference.[7] The housing continued to age and, with the deterioration of the systems, costs to maintain it increased. No funding mechanism was built into the system to extend the useful life of the housing.

Still, the developments and people endure. Public housing has been through many cycles. Much has changed in public housing over the years. A review of the program's history provides some insight into the background of the issues public housing faces today.

1949: START OF THE PROGRAM: HOUSING FOR VETERANS

In 1948, two special commissions of the legislature found housing to be "the number one problem in the Commonwealth today." The commissions estimated that more than 50,000 Massachusetts veterans were in desperate need of housing. The commission's reports prompted quick consideration of housing legislation.

On April 6, 1948, Governor Robert F. Bradford signed into law the Commonwealth's "Chapter 200" public housing program following a unanimous vote by

[6]Unless otherwise noted, material for this section comes from reports in various issues of *The Journal of Housing,* published by the National Association of Housing and Redevelopment Officials (NAHRO), January 1948 through July/August 1994.

[7]The state version of the federal Brooke amendment of 1969 that capped tenant contributions in federal public housing occurs as Chapters 854 and 694 of the Acts of 1970.

July 1948—**Woodrow Wilson Court** *in Cambridge was the first Chapter 200 veterans housing in the Commonwealth to break ground.*

the legislature. The new law authorized $200 million in state credit and $5 million in annual contributions to housing authorities to pay debt service. Occupancy of the new housing was restricted to low-income veterans of World War II. The definition of low income was determined by the chairman of the State Housing Board, the agency responsible for program oversight.

The legislation authorized housing authorities to issue 25-year bonds (extended to 40 years in 1949). The housing was to be sold to private owners at fair market value at the end of 25 years. Bond funds covered the total development costs including the purchase of land, site preparation, utilities, design, and construction. Legislators envisioned that upward of 20,000 dwellings could be built with the funds made available.

The Chapter 200 legislation required that the state housing conform "as nearly as possible to the existing published requirements of the federal government for low-rent or other housing projects." It was the intent of the law that when, and if, federal legislation extending the public housing program came into being, requests would be made to the federal government for refinancing under federal legislation.

There was an immediate response to the new program. Within two days of the governor's signature, the State Housing Board received applications for more than 6,900 units. By the end of August more than 100 communities had applied, and by the end of the year applications had been received for more than 22,000 units.

The 68-unit Woodrow Wilson Court in Cambridge was the first to break ground in July 1948, only three months after the new program became law. The 70-unit Fitzpatrick development in Chelsea was the first to be occupied, beginning in March of 1949. It had been designed and built in only four months.

The program's second year saw 37 projects with 4,700 units completed in 35 communities, with another 7,300 under construction. A total of $183 million of the $200 million had been committed. A total of 15,460 units were built in 88 communities over the short construction life of the program from 1949 to about 1953.

Construction standards deliberately mirrored the federal standards for units built during this period. Most developments were either walk-up apartments in brick and masonry buildings or wood frame duplexes and town houses. There were also a few small single-family-home subdivisions. Unlike the federal rules in place at the time, construction did not have to be part of a "slum clearance" program. In part because of the strong objections of the real-estate industry to government's direct involvement in any housing for the poor, units were small with a minimum of amenities.

Initially limited to veterans, the housing was soon made available by statute to other low-income households as the incomes of the first occupants increased and they moved on. Very low-income households found the housing more expensive than they could afford because the state covered only debt service, and rents were set by the amount needed to cover operating costs.

1953: THE START OF A PROGRAM FOR LOW-INCOME ELDERLY

In 1953, the Commonwealth became the first state in the nation to provide loans and subsidies for low-income households of persons aged 65 or older. In 1956, the Chapter 667 program was passed. Typically the first apartments built were one- and two-story attached homes in small developments of 30 to 75 units. As with the family program, initial construction proceeded rapidly, with long waiting lists for the completed units.

Unit size standards for the elderly were initially very low—300 square feet or less for individuals and 450 square feet for double occupancy. The 300 square feet for individuals was soon recognized as inadequate and raised to approximately 400 square feet for all units.

THE 1960s: A MODEST EXPANSION IN PUBLIC HOUSING

The next surge of activity occurred in 1965 with the release of a report from a Special Commission on Low-Income Housing established by Governor Endicott Peabody in 1964. The report, *Decent Housing for All*, found that housing for low-income families fell far short of the federal goal of the 1949 Housing Act that called for "a decent home and suitable living environment for every American family." The report recommended that a comprehensive state-aided program be developed that included three components: (1) creation of a Massachusetts Housing Finance Agency (MHFA); (2) establishment of a state rental assistance program; and (3) a reinvigorated low-rent construction program for needy families.

Legislation supporting a substantial portion of these recommendations and including an expansion of the state's elderly housing construction program passed in the last few days of the 1966 session after an intensive education and lobbying effort spearheaded by fair housing and church groups.

Under the new public housing legislation, Chapter 705, up to 3,000 units of low-income family housing were to be provided in one of four ways: (1) through joint ventures with private nonprofit and limited-dividend developers to create mixed developments of low- and moderate-income housing; (2) construction of small (fewer than 100 units) family developments on vacant or cleared land; (3) purchase of existing suitable for low-income use including single-family homes for large families; and (4) the rehabilitation of substandard units.

To finance the program, local housing authorities were authorized to issue state-guaranteed bonds up to a total of $37.5 million and 5 percent annual subsidies based on the capital costs of the building. This new flexibility was intended to allow authorities to play a larger role in community development. Authorities would be able to do the new construction or rehabilitate newly acquired units themselves or after rehabilitation by private contractors.

The end of the decade also saw a broadening of the program to include handicapped persons under age 65 as eligible for the elderly housing to avoid "the institutionalization of such persons at substantial cost to the Commonwealth."[8]

Across the country, urban renewal programs and the need to rehouse many of the displaced families strongly impacted the direction of public housing. Unlike the opposition public housing had received from many in the business and real estate industry, urban renewal and highway programs that involved widespread demolition of low-income neighborhoods received substantial support from these same interests. Those displaced had priority to be rehoused in public housing. In Boston and elsewhere, housing households displaced by urban renewal became a major focus of the public housing program mission.

The change in the population of public housing through the urban renewal program accelerated another change in public housing that was occurring. Occupancy of the housing was no longer reserved for veterans or for working, two-parent households. As the composition of the housing shifted from working families to poorer—frequently single-parent—households,

[8]MGL Chapter 121B section 38.

family contributions to rent no longer covered the expenses of the projects. Housing authorities slipped further and further behind in efforts to keep up the properties with the diminished resources.

The 1960s were also a critical period for agencies dealing with segregation and fair housing issues. Much of the public housing program throughout the country had been designed and occupied as segregated housing. In the early days of public housing in Massachusetts, housing was designated specifically for white families and for black families. In Cambridge, for example, Washington Elms was the "black project" and Newtown Court was for white families. In 1950 however, Massachusetts outlawed discrimination in tenant selection.[9] But as Lawrence Vale noted, strong language was followed by weak enforcement.[10] His book, *From the Puritans to the Projects,* outlines the segregated history of much of Boston's public housing. At the national level, it was not until 1962 that an executive order prohibited the use of race as a basis for public housing tenant selection.[11]

THE 1970s AND 1980s: SETBACKS AND SUCCESSES

In 1971, Massachusetts adopted a policy of charging no more than 25% of income for rent. The "Baby Brooke" amendment, so named after the federal Brooke amendment that similarly capped rents in federal public housing, protected households from paying a large proportion of their income for rent, but accelerated the slide that public housing had begun. To compensate, the Commonwealth began to provide operating subsidy to LHAs to cover the disparity between what families could pay under the new law and the developments' actual expenses.

As the state's public housing stock aged, advocates organized efforts in the late 1960s to fund a modernization program modeled after the federal modernization program. When local tenant organizations were unsuccessful in accomplishing this, a Massachusetts Alliance of Public Housing Tenants formed to focus attention on this growing concern. Efforts by tenants and housing authorities were directed in the 1970 legislative session to fund a $15 million modernization program and to require the state to subsidize the full debt service. At the time, local authorities were paying about one-third of the total interest due.

The advocate's efforts were successful, however, for Boston and several other communities it was too little too late. The BHA, facing mounting vacancies and widespread management ineptitude in addition to a lack of funding, was placed in receivership under the jurisdiction of the state's housing court in February 1980.

The first major demolition of state public housing occurred in Lynn following passage of Chapter 884, passed in 1972. Chapter 884, which came to be known as the "America Park Act," provided a legal basis for housing authorities to demolish projects when renovation was deemed economically infeasible.[12] Under this bill, the 408-unit America Park project in Lynn was demolished and replaced by a mixed-income development, including 110 units for low-income households, known as King's Lynne. Displaced tenants were to be guaranteed housing and it was required that the demolished units be replaced by mixed-income units financed by the MHFA. Under the act, $15 million was appropriated. Ten million was to help housing authorities to pay outstanding obligations on projects to be demolished or sold, relocation costs, and the costs of site preparation. The remaining $5 million was to be used to continue the statewide modernization program. That year also saw an additional $100 million appropriated for elderly housing construction and $20 million for family housing.

At the same time that the state's family housing stock was facing mounting problems, elderly waiting lists began to decline in many communities. Many low-income elderly persons found newer affordable housing

[9]MGL Chapter 479 of the Acts of 1950.

[10]Lawrence J. Vale. 2000. *From the Puritans to the Projects.* Harvard University Press, Cambridge.

[11]Gwendolyn Wright, 1980. *Building the American Dream.* Pantheon Books, New York page 234.

[12]Joseph E. Corcoran, "King's Lynne: Public Housing Becomes Private Housing." *Urban Land.* March 1980.

with more amenities available to them thanks to the HUD 202 program and Section 8. In response, age limits in Massachusetts state-aided housing were dropped from age 65 to 62 in 1985 and then to 60 in 1990.[13]

The early 1970s also saw the introduction of congregate housing as part of the elderly program. Many of the original elderly were becoming increasingly frail. A congregate housing program was developed to provide shared living arrangements, and service programs were developed in participation with the Executive Office of Elder Affairs. Under this initiative, fifty-six housing authorities constructed 862 units of congregate housing.[14]

Some progress was also being made in addressing the needs of the aging inventory. In the 1970s and early 1980s, the state began to provide bond funding for repairs and other improvements. Investments in developments like West Broadway in South Boston (Phase I, II and III) and Fidelis Way in Brighton, which was converted to a federally assisted development now called Commonwealth, showed that developments serving low-income people, could, with thoughtful, durable rehabilitation and tenant involvement in management, have new life as stable, safe, and affordable housing.

Comprehensive modernization was also undertaken at a number of the older developments. New enthusiasm and understanding of the design needs of the portfolio and the sites emerged. Residents worked with housing authorities to stabilize and reinvigorate their housing.

Funding for operating costs was substantially diminished in the mid-1980s, declining from $30.9 million in 1983 to a low of $24.9 million in 1994.[15] It was not until 1999 that operating subsidy again reached $30 million.[16]

THE 1990s: EFFORTS TO KEEP THE STOCK GOING

In the early 1990s, funding for modernization of the 50,000-unit portfolio fell from $18 million a year to less than $9 million in 1994. That's less than $180 per unit per year for stock that was, on average at that time, over forty years old.

In the late 1990s DHCD made significant advances in raising both the operating subsidy available to LHAs and modernization funding to improve the stock. Bond bill funding has allowed many LHAs to begin to address some of their more serious physical and building system deficiencies. LHAs have slowly begun to gain back some of the ground lost in prior years.

Funding for modernization has not kept pace with demand. DHCD and local authorities have focused, with considerable success, on keeping units habitable and occupied and on reducing the environmental hazards of lead paint, asbestos, and leaking or abandoned oil tanks. Additional funds were also spent on sprinkler systems for high-rise buildings and for accessibility improvements. However, despite the best efforts of many authorities and DHCD, many developments continue to experience mounting unmet modernization needs which, if not addressed, will inevitably lead to declining support in the communities where they are located. If the limited availability of funds continues, further losses in the inventory—both family and elderly—can be expected.

[13]DHCD is proposing a further reduction to 55—see The Department of Administration and Finance report issued in 2000 *Bringing Down the Barriers: Changing Housing Supply Dynamics in Massachusetts. Policy Report No.4*, page 90.

[14]Roberta Strong, Congregate Housing Program History, DHCD file document January 2001.

[15]Some of the reduction was due to mandated increases in the tenant's contribution. In addition, LHA elderly and family budgets were merged requiring rental income from elderly developments above allowed budgets to be applied to family developments operating at a deficit there by reducing the total amount of operating subsidy that was required.

[16]However, if this figure is adjusted for inflation, it is still well below the 1983 level.

TABLE 1 Major Reductions in the State-Aided Inventory

City	Development	Original # of units	# still serving low income households	Redevelopment completed	Comments
Boston	Fidelis Way/ Commonwealth	648	392	1985	Converted to 392 units of federally aided public housing.
Boston	Franklin Field	504	348	1987	Converted to 348 units of federally aided public housing.
Boston	West Broadway (D Street) phase I,II, III	728	400	1987, 1991	Development originally had 972 units. Only 728 were redeveloped in Phases I, II, and III.
Boston	West Broadway phase IV	244	133	In planning	Still vacant units from the original development. All 244 units are currently vacant. They are to be rebuilt as low-income housing owned by a BHA-controlled partnership.
Cambridge	Jefferson Park Extension	200	175	1987	Modernized as federally aided public housing.
Cambridge	Roosevelt Towers mid-rise	96	75	1980	8-story building converted from family to "empty nester" housing with project based Section 8 subsidy.
Cambridge	Roosevelt Towers garden apts.	132	124	1997	Converted to 124 units of federally-aided public housing
Holyoke	Elderly 667-1	42	42	1998	Demolished as part of Hope VI program and replaced with 42 federally subsidized units.
Lynn	America Park	408	110	1978	Now known as Kings Lynne. Site reconstructed with 441 units of mixed income housing, 81 for low-income families.
Lowell	Julian Steele	284	81	In planning	To be converted to a 180 unit mixed-income development. 110 units (45%) to serve low-income households.
Lynn	Memorial Park, Chestnut and Green	126	104	1979	Now known as Quaker Meadows. Site reconstructed with 104 Section 8 units.
Other communities[17]		414	0		Sold for market value.
Totals		**3,582**	**1,982**		**Net loss of low income units totals 1,600 units**

REDUCTIONS IN THE STATE-AIDED INVENTORY

Over the past twenty years unit losses in the Chapter 200 state-aided family housing program have occurred, or are proposed, as a result of modernization, conversion to other forms of assistance, or outright sale. These redevelopment actions have impacted or will impact more than 3,500 units.[18] The loss represents about 20% of the family inventory. While some of the units have been federalized and still house extremely low-income families, others have been lost because of density reductions or conversion in mixed-finance redevelopments. Three thousand, five hundred units were lost from the state inventory. That is, they are no longer state-aided public housing. Of the 3,500 units lost, only 2,000 have been replaced with units that are available to low-and very-low income families. (See Table 1.)

THE STATE PUBLIC HOUSING PROGRAM TODAY

Approximately 50,000 units of housing for families, the elderly, and persons with disabilities are administered by local housing authorities across the

[17]Athol in 1972, 32 units; Barnstable in 1989, 36 units; Dalton in 1962, 26 units; Falmouth in 1972, 65 units; North Adams in 1972, 65 units; Northbridge in 1972, 22 units; Rockport in 1972, 12 units; Walpole in 1972, 45 units.

[18]This number includes the Julian D. Steele development in Lowell that serves 203 extremely low-income households and is going to be redeveloped. Not included in the loss column is the effort being undertaken by the City of Fall River to demolish the 100-unit Watuppa Heights development.

Commonwealth in 246 communities.[19] Each authority has its own board of commissioners.[20] Sixty-six of these authorities also manage a total of nearly 34,000 federally aided units. One hundred thirty-three LHAs administer the federal Section 8 rent subsidy and/or the state's rental voucher programs.

Public housing has three main program components: family housing through Chapters 200 and 705; elderly/disabled housing through Chapter 667;[21] and Special Needs housing through Chapters 689 and 167.[22]

TABLE 2
The number of units in each program

	Family housing: Ch. 200 & 705	Elderly/disabled housing: Ch. 667	Special Needs housing: Ch. 689 & 167
No. of units	**15,736** units	**32,400** units	**1,879** units

Most LHAs are very small. 101 have fewer than 100 state and/or federally aided units. Only fifteen LHAs have more than 1,000 units.

TABLE 3 Size of Housing Authorities

Number of units	Number of authorities
Fewer than 100	101
100–249	76
250–999	46
1,000+	15

The small size of the authorities is matched by the small size of most developments. In comparison with many other public housing programs, Massachusetts's family inventory is predominantly in low-rise, medium-density developments. Seventy-two percent of the units are contained in the forty-four developments of 100 plus units. Over eighty developments have fewer than 100 units.

[19]There is a total of 235 housing authorities with units. Some authorities serve more than one community.

[20]In Boston, however, the authority is a separate entity whose director is appointed by the mayor.

[21]The elderly program also includes housing for persons with disabilities, which are defined in legislation as handicapped. This report uses the term disabled.

[22]Chapter 200 of the Acts of 1948; Chapter 667 of the Acts of 1956; Chapter 689 of the Acts of 1974; and Chapter 167 of the Acts of 1987.

TABLE 4
Size of Family Chapter 200 Developments[23]

Number of developments	Number of units
46	Fewer than 50
31	50–99
33	100–249
10	250+

Building Types

There are six predominant building types in the inventory, which are described in table 5 (page 16).

Occupancy

The family and elderly/disabled housing is occupied by some of the Commonwealth's most vulnerable citizens. Based on the average rent levels across the state, it is evident that many public housing residents are very low-income, with incomes less than 20% of the area's median. In general, this means that public housing residents have incomes of less than $15,000 per year. With the exception of a few communities, few low-income working families with incomes above 20–30% of median live in public housing, despite the high cost of rents in many communities. Such very low-income occupancy is due to a number of factors, including selection criteria skewed to situations where families are likely to have lower incomes and fewer choices, and the failure to attract and keep higher income, public-housing-eligible households. The quality of the housing stock and negative perceptions about public housing have contributed to this failure.

The composition of the family units is diverse. Waiting lists for family developments are long, and many authorities open these lists for new applicants only occasionally and for a short period of time. Most LHAs have been able to maintain nearly full occupancy, with the exception of a few developments where abatement or modernization is under way.

[23]DHCD CIIS Portfolio Listing.

TABLE 5 Building Types in the State Portfolio

Program	Housing Type	Number of Units (rounded)	Description
Ch. 200 Family	3-4 story walk-up flats[24]	4,150	Typically high-density projects, in urban locations of concrete and brick construction, usually flat roofs, 6–12 families share an entryway.
Ch. 200 Family	Single-family, townhouses and apartments	8,600	Low- to moderate-density projects in less dense neighborhoods, wood frame construction, brick, clapboard or shingle exterior with pitched roofs. Townhouses with separate entrances; some are 2-story apartments with 4 units on an entry.
Ch. 705 Family	Varied	3,000	Small projects or individual units on scattered sites; varied building types including single-family, condos, and apartments. Some were new and some renovated at the time of purchase.
Ch. 667 Elderly/Disabled	One-story attached	4,400	Small wood frame buildings, some with brick exterior, with separate entrances in small complexes often in a park-like setting.
Ch. 667	2 and 3-story garden apartments	20,500	Wood frame buildings, some with brick exterior, common entryways, no elevators.
Ch. 667	High-rise and mid-rise	7,500	Larger projects with elevators, central lobby, meeting rooms, laundry, and parking.

Source: DHCD.

TABLE 6 Occupancy of Family Units[25]

Ethnic Group	Percent of total
White	48%
Asian	4%
African American	17%
Hispanic	29%
Native American	<1%
Multi racial	1%
Total	100%

Source: DHCD

Single white persons with incomes largely based on Social Security are the majority of occupants of the elderly/disabled developments. As of December 31, 1999, statewide, minority residents made up 7.4% of the tenant population occupying the 667 housing. In 1995, legislation was passed giving preference in placement in the 667 units to "handicapped persons" for 13.5% of all the 667 units and the elderly preference for the remaining 86.5%. DHCD's reports indicate that disabled persons under 60 now make up 13% of the occupants.[26]

Waiting lists for elderly applicants at many authorities are short. An income-eligible elderly person from any part of the state is often accepted after only a short wait. In many communities that can mean that an elderly person can be housed within 3–6 months, sometimes immediately. Disabled applicants are applying in greater numbers. At the end of 1999, DHCD reports indicate that 42% of all applicants for elderly/disabled housed were disabled persons under 60 years of age.[27] In some communities that percentage is higher.

Despite the short elderly waiting lists, most LHAs have thus far been able to maintain full or close to full occupancy. However, it is clear that some unit types are harder to rent than others. The very small, single-story units constructed in the early years of the program are particularly hard to rent. Their small size, security issues, lack of handicapped accessibility, lack of amenities such as air-conditioning, and lack of parking contribute to this lack of interest. Second-floor units

[24]The Woodrow Wilson development in Cambridge is the only 4-story chapter 200. The 3-4 story walk up category also includes 75 units in Roosevelt Towers, an eight-story "empty nester" building in Cambridge.

[25]As of December 3, 1999.

[26]DHCD Bureau of Asset Management December 31, 1999.

[27]DHCD Bureau of Asset Management. Applicants under Age 60 on LHA Waiting Lists as of December 31, 1999.

without elevators are also harder to market as the population ages. Congregate units, where residents share bathroom and kitchen facilities, have been especially difficult to keep filled. Twenty-five percent of the 840 congregate units in the program are vacant.

One way that DHCD has attempted to make the housing more attractive and competitive to seniors is through its Supportive Senior Housing Initiative, undertaken with the Department of Elder Affairs. This initiative provides enhanced services such as case management, 24-hour on-site personal care staff, housekeeping, medication reminders, transportation, and meals. This program, targeted mainly to the high-rise developments, has by all accounts been successful.

New service models to accommodate the smaller scale and lack of common rooms in the older one- and two-story inventory are also needed.

DHCD is currently undertaking a study of the elderly developments in eleven communities to identify the reasons for the short waiting lists of elderly persons and to suggest ways for dealing with the problem. The DHCD-commissioned report will complement this analysis of the public housing inventory and deal in depth with marketing and design problems in the Chapter 667 portfolio.

OPERATING COSTS AND PROCESS FOR FUNDING

Massachusetts provides operating assistance to local housing authorities (LHAs) to cover the difference between tenant rents and the costs of operating the development. The Commonwealth began to provide operating subsidy in the early 1970s when, because of declining tenant incomes and the state-imposed 25% of income cap on what tenants could pay for rent, rents no longer were adequate to cover operating expenses in many developments. DHCD approves budgets for all LHA-operated state-aided public housing units, regardless of whether the LHA requires operating subsidy from the Department.

Those authorities whose rents cover costs and do not require subsidy are sometimes called 'surplus authorities.' 'Surplus' is a misnomer, because no authorities really have a surplus. It has become shorthand to mean that these authorities can cover DHCD-approved expenses with tenant income. Authorities whose costs exceed rents receive state operating subsidy are called 'deficit authorities.' In Massachusetts there are approximately 111 deficit authorities and 124 non-deficit authorities.[28] Only 24 authorities with family units are non-deficit authorities. These 24 nondeficit authorities with family units are generally in more affluent, suburban communities. One hundred ten of the non-deficit authorities have a portfolio that is made up exclusively of elderly developments.

As explained above, 'surplus' does not necessarily mean that housing authorities have plenty of money. Operating within restricted Approved Expenditure Levels (AELs), some authorities with higher rents may appear to have surplus cash. If AELs were raised to reflect higher costs, or replacement reserves were funded, many 'surplus' housing authorities would quickly become deficit authorities.

Family units are generally older (all Chapter 200 units are more than forty-five years old), more costly to operate, and have more wear and tear than elderly developments because of larger households and more children. The work needed to get units reoccupied after they have been vacated is expensive and staff intensive. More family units than elderly units are in urban and lower income locations.

The bulk of the operating subsidy appropriated each year goes to make up the gap between rents and operating costs in family developments.

At one time, the elderly and family inventory was separate in terms of calculating operating subsidy. In 1991, as part of an effort to reduce state subsidy payment, the portfolios were merged, and any elderly revenue above approved state budgets had to be applied to the family project gap.

[28]This number fluctuates frequently as authorities on the line between surplus and deficit drift back and forth depending on tenant income and other factors. This data is a snapshot of LHA status in the reporting period of FY 2001.

TABLE 7
Number of Nondeficit and Deficit Authorities Fiscal Year 2001

Total LHAs	235
Nondeficit LHAs	124
Deficit Authorities	111

Source: DHCD

DHCD authorizes approved expenditure levels (AELs) for each authority. The AELs are exclusive of utility costs that are a direct pass-through; that is, the utility costs are paid by DHCD outside of the LHA budget. Authorities prepare budgets on an authority-wide basis. Few authorities can produce development-based budgets. In FY 2001, DHCD was successful in persuading the legislature to allow funding for replacement reserves from the operating subsidy account. The restriction, which had previously prevented it, has been removed, but the low level of budget authority has made it impossible to set aside funds for a capital reserve.[29]

Authorities with federal and state public housing units have informally been able to assign staff and costs somewhat fungibly across the inventory. Recent Generally Accepted Accounting Procedures (GAAP) now make that more difficult, and LHAs must closely track costs for the two components of their inventory. The federal 'subsidy' accruing to state units in this fashion was estimated in 1999 at $5–6 million per year.[30] This gap has been reduced, following an increase in state operating subsidies beginning July 1, 2000.

DHCD encourages operating reserves of 50% of the annual expense level, including utilities. Twenty percent is considered minimum. Some authorities have more and others have less than that amount. If the reserve is above 70% of the required level, DHCD requires the authority to use a portion of the reserve to pay for approved modernization work.

FY 2001 AELs per unit per month (pum) approved for the state-aided programs are:

Chapter 200	$265 pum
Chapter 705	$290 pum
Chapter 667	$146 pum

In recent years these AELs have been raised by approximately four percent a year at the beginning of each authority's fiscal year. A few large urban authorities historically had higher AELs. This gap has diminished as pums for all other authorities have been substantially increased over the last few years, while the housing authorities with the higher AELs have been limited to 4% increases.

In FY 2000 the subsidy account was able to provide supplemental funding for exterior painting and assistance with deferred maintenance items by reallocating funds. This was made possible by increased rental income from tenants, the reduction of tenant account receivables by diligent LHAs, a decrease in vacancies, the mildness of the winters, and major energy conservation initiatives undertaken by LHAs and DHCD.

[29]DHCD has proposed beginning to fund capital reserves in FY 2002 if the operating subsidy account is increased.

[30]From discussion with Tom Connelly, Executive Director, MassNAHRO. August 2000

2

Modernization Needs and Funding Process

The state modernization process is designed to provide technical assistance and oversight to LHAs and to use the limited modernization funding efficiently. The Commonwealth provides less than one-half the amount of money that the federal government provides for capital improvements. The report finds that LHAs need more funding, additional flexibility, and, where appropriate, compatibility with the federal capital improvement process.

The report concludes that, while many units are functioning well as affordable housing, an investment of almost $1.5 billion is necessary over the next ten years to stabilize and reinvigorate the stock. This investment should address the backlog of capital needs and move to a more predictable formula basis for modernization funding.

This section examines the modernization program including: the condition of the inventory and past levels of funding through bond bills, and compares the administrative and oversight procedures used by DHCD and HUD. [31]

[31] In conducting this investigation the following information sources were used:

- site visits to LHAs
- portfolio surveys of LHAs
- DHCD data from the Comprehensive Improvement Inventory System (CIIS)
- interviews with DHCD staff
- analysis of recent modernization experience in the state-aided portfolio
- analysis of modernization experience and expenditure levels in the federal program.

SITE VISITS

As a part of the study, site visits were made to twenty-three housing authorities.[32] The Massachusetts Chapter of the National Association of Housing and Redevelopment Officials (Mass NAHRO) and DHCD helped to compile the list of sites to be visited. The LHAs visited included most of the ten largest authorities that together have more than two-thirds of the state-aided family stock and a representative range of small, medium-size, suburban, and rural authorities.

In most cases the visit included a meeting and discussion with the director and key staff. A short survey form, filled out with the authority staff, was used to assess conditions and to identify priorities and problem areas. Authorities were asked to categorize their state portfolio and assess conditions across four categories of need as outlined below.

Categories of Need

- **Major deferred maintenance:** Developments with substantial capital needs, major systems or building components in need of replacement; or development with vacancies of more than 10%.
- **Moderate capital needs:** Some deferred maintenance, some major components need upgrade.
- **Minor capital needs:** No deferred maintenance, some component replacement needed.
- **No capital needs:** Repairs needed are minor and could be handled with a replacement reserve.

[32] Housing authorities visited include: Amherst, Barnstable, Boston, Brockton, Brookline, Cambridge, Chelsea, Chicopee, Fall River, Framingham, Gloucester, Holyoke, Lawrence, Needham, New Bedford, Northampton, Quincy, Revere, Somerville, Springfield, Watertown, Wellesley, and Worcester.

OBSERVATIONS

Based on the survey data, we found that there were only a handful of developments that housing authority staff would put in the last category—developments with no capital needs. Again, only a few developments could be characterized as severely distressed and requiring major redevelopment. Many, however, had serious deferred maintenance problems or needed replacement of major building components.

Given the chronic lack of a predictable funding source, most LHA staff have not been able to develop a plan that identifies and prioritizes capital needs and costs. However, LHAs have used a variety of creative ways to sustain their developments. These include the use of federal block grant funds provided by the local community and donations.

From these visits, we noted a number of general observations about the condition of the developments.

Family Developments: Chapter 200

1. Most family developments are fully occupied except for normal turnover or construction of needed modernization work, indicating that units, while not necessarily code-compliant, were at least habitable. Exceptions are the 244 vacant and boarded-up units at West Broadway in Boston scheduled for redevelopment as public housing, the 284-unit Julian Steele development in Lowell that is now in the process of being vacated in anticipation of its redevelopment for mixed-income use, and the three-family developments in Fall River.

2. The more urban and dense family developments built as three-story walk-up apartments are frequently the most out-of-date in terms of design for family living, and are also the most difficult to manage. They will continue to require a large portion of the state's modernization funding to remain habitable. The three-story walk-up apartment buildings are typically located in large super blocks. The building footprints do not relate to the street and the entryways are at an awkward angle to the building. This is a discredited design concept that, at the time these units were built, emphasized safety from traffic and sought to provide an increased amount of light and air to the units.

3. A common complaint in shared-entry buildings is the perceived and actual lack of public safety. Locks are often broken or doors are propped open because of the lack of a buzzer or intercom system. Vandalism often occurs in these unsecured hallways.

4. The walk-up flats are undersized and typically lack adequate space for family meals, laundry, and storage. Many still have some or all of their original forty-five to fifty-year-old heating, electrical, kitchen, and bathroom equipment. Washer/dryer hookups were frequently not included in the original design. In units where tenants have installed them, they are often haphazardly hooked up without proper ventilation. While DHCD is aware of the issues and has funded work to address the problems as they are identified, there has never been enough modernization funding to properly address all of the underlying problems.

5. Given DHCD's understandable desire to spend the limited money available to keep units habitable and occupied, until recently site work has received little or no funding. Sites were frequently found to be in disrepair and lacking in 'curb appeal.'

6. A number of residents were concerned about poor ventilation, mold and other environmental contaminants. Tenant leaders often cite increases of asthma among the children. It was noted that in some cases this might have been due to site drainage or plumbing problems. In some cases, energy conservation has tightened up the units to the point where reduced fresh airflow has increased interior moisture. In addition, inadequately ventilated bathrooms and improperly installed, unvented dryer exhausts account for moisture buildup leading to mold.

7. Many family developments have limited and inefficient space for management staff and maintenance equipment.

8. Family developments that were constructed primarily as duplexes and townhouses face less severe problems that are less expensive to correct. Nevertheless, some LHAs have buildings that are badly in need of modernization and have unattractive and shabby sites. Roadway and address systems can be confusing and can lack a sense of place.

9. In contrast, federally aided family developments were usually in much better overall condition. They have received a higher level of modernization and/or redevelopment funding over the past 10(15 years, which has allowed for more systematic planning. Both buildings and sites show a higher level of improvement and overall quality than those in the state portfolio.

Scattered Site Family: Chapter 705

10. Similar generalizations cannot be made for the scattered site Chapter 705 family units. There is a much greater range of design and conditions. Some of those constructed or acquired in the 1980s and early 1990s are in good condition and were built to reasonable standards. Others, particularly those that were acquired from private builders, were constructed with low-quality materials and poor workmanship. The more scattered the sites, the more dependent the quality of the maintenance is on the attention and care of the family living there. Chapter 705 units in the oldest buildings often have similar problems to those in the Chapter 200 program. Work to meet Title V requirements is also needed for units with their own leaching fields and will be an increasing expense in the future.

Elderly Developments: Chapter 667

11. The older one- and two-story elderly/disabled units that make up the largest portion of the inventory have some of the same problems as the family units—they are undersized and have aging systems. Built at a time when few elderly people had cars, sites often lack adequate or convenient parking. The smallest of the units, which offer few amenities, are becoming a significant marketing problem in some communities. As the population ages, a lack of elevators in many of these buildings has made marketing second-floor units more difficult, particularly to the frail elderly. At the same time, the elderly, who predominantly live alone, obviously have far less of an impact on their unit than families. Units in elderly developments typically show fewer signs of outright malfunction and distress.

12. The elderly/high-rise inventory is relatively newer and generally in better condition than the family inventory. However, as buildings age, increasing problems can be expected with their exterior shell. Some buildings are beginning to have water penetration and ventilation problems. Windows, masonry, roofs, elevators and mechanical systems will need increased levels of investment if they are to be properly maintained. Parking is often inadequate. Investment in capital improvements will be needed to keep the units marketable. The majority of units in the high-rise buildings are heated electrically, which at least in recent years has been an expensive source of energy.

THE PRESENT APPROACH TO MODERNIZATION

The state administration has defined its approach to modernization this way:

> The goal of the housing modernization program is to protect the investment made in public housing by the state over the past forty years by providing funds for capital maintenance of these developments.[33]

This is a worthy goal. However, limited funding has resulted in a modest approach to modernization that cannot fully address the backlog of deferred needs of the aging stock.

The present approach to modernization uses a competitive funding round to make awards from peri-

[33] *EOCD Program Book*, Executive Office of Communities and Development, 1992.

TABLE 8 1997 Bond Bill—Awards by Program

Program	Total units in program	Total awards	Award amount per unit in program	Unfunded*
Chapter 200 family	12,736	$62,179,000	$4,882.00	$46,495,000
Chapter 705 family	3,000	$3,352,000	$1,117.00	$2,801,100
Chapter 667 elderly	32,400	$25,754,000	$795.00	$80,433,000

Source: DHCD

*Does not include an additional $152 million in comprehensive modernization applications that were not funded.

odic bond bills. DHCD issues guidelines to LHAs for the submission of new projects in the form of a Condition Assessment Report (CAR). In the last round in 1998, DHCD used a formula based on the number of units owned by the LHA to limit the number of applications from each authority. Each authority could submit one application plus one more for every additional 100 units or part thereof. By waiver, DHCD allowed additional applications from LHAs requesting them. The value of each proposed CAR was then estimated by DHCD.

The department required housing authorities to submit CARs for the repair or replacement of single building components. Categories included such items as exterior walls, venting, water and air infiltration, electrical/fire safety, heating, and seriously deteriorated kitchens and baths. Housing authorities could also submit a CAR for comprehensive modernization/redevelopment.

The department received CAR applications valued at over $375 million.[34] Each application was ranked. About one-third (345) of the applications received CAR awards. Unfunded applications, including the unfunded comprehensive modernization projects, were valued at approximately $283 million.

Twelve of the awards were for planning of kitchen and bath renovations for 1,495 units. Additional planning awards were made for separate kitchen or bathroom modernization projects. The planning grants did not cover the cost of construction, which will require approximately $30 million in funding from the next bond bill.[35]

Awards were made based on need and condition. CARs for family Chapter 200 and Chapter 705 were more likely to be approved, because the heavier wear and tear on the units has resulted in more deteriorated conditions. Fifty-seven percent of the family development CAR applications were funded, in contrast to only 24% of the elderly requests.[36]

The CAR process results in situations where, despite great need throughout the portfolio, some LHAs, because their needs are of a lower priority or do not fit into the CAR categories, receive no award for a given bond bill period. Unless they have an emergency, or have reserve funds available, no capital improvements can be undertaken until the next bond bill is approved and the next set of competitions is announced.

Some LHAs were more successful in obtaining grants than others. Four of the largest twenty (those with more than 200 family units) received no awards. Those receiving the greatest amount on a per-unit basis were Quincy and Chicopee. For the elderly program, of the twenty-seven authorities with 300 units or more, five authorities received no funding. Those receiving the most on a per-unit basis were Attleboro, Beverly, Brockton, and Pittsfield.

[34] Initial DHCD estimates are often much lower than actual construction costs.

[35] Thirty million ($30m) is based on the average amount awarded from the 1997 bond bill for combined construction cost for modernization of kitchens and baths of $19,000 per kitchen/bath. It can be expected that the final cost of these improvements will be higher.

[36] Percentages based on dollar value of CAR request,

AWARDS FROM THE 1998 BOND BILL

Legislation signed by Governor A. Paul Cellucci in 1998 authorized $187 million for public housing modernization. Of this amount, DHCD awarded $91 million for new modernization work. The remainder of the $187 million was allocated as follows:

1. $38.305 million to cover the unfunded costs of prior awards made in 1993 (excluding authorities that received kitchen and bath planning awards);
2. $48.695 million for kitchen and bath renovations that had been planned and designed with funds from awards made in 1993; and
3. $12 million for code compliance work including lead paint abatement and oil tank removal.

The tremendous length of time between initial award and project completion of the work is a clear indication of the severe constraints on the limited resources available.

DHCD ESTIMATE OF NEED

The department maintains a database—the Capital Improvement Inventory System (CIIS)—that gives an estimate of the cost of replacing building components that "have exceeded their useful life." DHCD considers the CIIS to be only a crude approximation of need. It is used for internal planning and management purposes and to provide information to the legislature on the magnitude, timing, and funding requirements for needed improvements. It is not used as the basis for making funding awards to LHAs—these awards are based much more on the actual condition of the units.[37]

The current CIIS estimate of need, according to DHCD staff, now totals $821 million. This is an increase of more than $200 million from what was estimated in 1993.[38] The estimate does not include any costs for architectural services or DHCD and LHA administrative costs. Adding those costs at a conservative 20% brings the total to more than $838 million. This is about $16,750/unit.

A third of the estimated need is for the replacement of bathrooms and kitchens; other major needs are for electrical/fire safety work, plumbing, heating, and exterior repairs.

ANNUAL EXPENDITURE CAPS

Despite what bond authority may be authorized by the legislature, actual annual expenditures allowed for the program each year are limited by the cap set on bond expenditures for all agencies by the Executive Office of Administration and Finance. 'Bond cap' is apportioned to each state agency and becomes its limit on capital expenditures for the year. Agencies have discretion within their programs on allocating bond cap. DHCD programs under the bond cap include private rental housing programs like the Housing Stabilization Fund (HSF), the Housing Innovations Fund (HIF), and the Capital Improvement and Preservation Fund. Community Development Action Grants (CDAG) are also bond-funded.

There was a decline in the level of cap allocated to DHCD through the first four years of the 1990s. Spending for public housing modernization fell from $18 million to less than $9 million in 1994. An increase in recent years pushed the amount of DHCD spending on public housing to around $40 million per year. Approximately $2 million (5%) of this amount is used to provide DHCD staff support. Although higher now, the average expenditure for public housing over the past 10 years was $24.7 million per year. Divided across the number of units in the program, this is less than $500 per unit per year. (See Table 9, p. 24.)

[37]Recognizing the limitations of the existing system, DHCD, in participation with the Cambridge Housing Authority, is now in the process of getting technical assistance to develop a web site that will, as described in their proposal for services, "improve the accuracy and enhance the functionality of DHCD's CIIS system ... to produce a CIP (Capital Improvement Program) for each LHA ... and to make the resulting tool readily available to all LHA's."

[38]In June of 1993, Mary Padula, then Secretary of the Executive Office of Communities & Development (now DHCD) sent a letter to each housing authority indicating a statewide need of $600 million. Back-up data was also provided to each LHA, summarizing a list of "all those components at your authority that have exceeded their useful lives and the anticipated capital expense to repair or replace them."

Archdale, *an apartment complex in Boston, opened in 1952. The brick exterior, flat roofs, and shared entryways are typical of Chapter 200 veterans housing constructed in high-density urban areas. Over 4100 were built in the late 1940s and early 1950s.*

Reed Village *in Springfield opened in 1949—a typical example of Chapter 200 town house construction. 8600 attached homes were built in the late 1940s and early 1950s.*

While this amount would be adequate as a capital replacement reserve for units in good condition, it falls far short of the needs for properties that are forty to fifty years old. Typically, a responsible owner with an inventory of this age would, in addition to maintaining a replacement reserve, finance an extensive renovation program every twenty to twenty-five years in order to keep the properties in marketable condition.

The present direction is positive, with DHCD aggressively utilizing all cap funds available. In February 2001, the Cellucci/Swift administration announced that it would allocate a significant bond cap increase, an additional $30 million a year, to DHCD. Public housing will benefit from the ability to spend legislatively authorized bond funding more quickly. Up to $20 million of the additional cap may be allocated to public housing.

TABLE 9
State Bond Bills That Fund Modernization and Annual Expenditures, 1991–2000

(In millions rounded to nearest $100,000)[39]
(Shaded lines are Bond Bill years)

Fiscal Year	Modernization Bond Bill (000's)	Modernization Expenditures (000's)
1991		$18.0
1992		13.3
1993	**$130**	12.1
1994		8.8
1995		17.3
1996		28.2
1997		32.9
1998	**$187.5**	33.2
1999		43.6
2000		39.1
Total for 10 year period	**$317.5 million**	**$246.5 million**
Average per year	**31.75 million**	**$24.7 million**

Source: DHCD

[39]DHCD. Modernization Bond Bills totaled $317 million in the 1980s. The legislature also appropriated $220 million in the 1970s and 1980s for the revitalization of federally aided public housing. Bond bills in the 1980s and 1990s also authorized the expenditure of $548 million for the development of state-aided housing for families, the elderly, and people with disabilities.

TABLE 10 Planned Major Modernization Work Under Planning or Design (as of 1/1/01)

Housing Authority	Development	Number of units	Budget	Funding per unit	Start Date	Comments
Boston	West Broadway 200-1	133	$10.5 million (state portion)	$79,000 (state portion)	2002	244 units now vacant—to be rebuilt with 133 apartments—total cost will include other funding and include leveraged financing.
Brockton	Roosevelt Heights 200-1	104	$8.0 million	$78,431	2001	Now under construction, 12 units to be rebuilt off site. Mostly funded from 1993 bond issue.
Cambridge	Woodrow Wilson 200-1	69	$4.2 million	$49,275	2001	Under design
Fall River	Pleasant View (200-1) and Watuppa Heights (200-3)	130 100	$12.6 million (both)	$54,783 (both)	2001	Mostly funded from 1993 bond bill. Controversy over whether some units should be demolished is delaying bidding and construction start.
Holyoke	Beaudoin Village 200-1	215	$13.1 million	$60,086	2001	Mostly funded from 1993 bond bill.
Quincy	Snug Harbor 200-1	396	$8.3 million	$20,960	2001–02	Adjacent to 500 units of federally aided public housing. Possible reduction in units and use of mixed financing.
Taunton	Paul Bunker 200-1	100	$5.0 million	$49,460	2002	Not yet under design
Wellesley	Barton Road	90	$12 million	$133,000	2001	Funding mostly from 1993 bond issue. $300,000 from the town for site work. Use of leveraged financing is being considered.
Totals		**1,357**	**$68.4 million**			

Source: DHCD

MAJOR MODERNIZATION PROJECTS

Eight major projects currently in planning or construction, as shown in Table 10, have been funded from the last several bond bills. A major project is defined here as one with a construction cost of more than $20,000 per unit. The work to be done involves either replacement or repair of multiple components or, in the case of West Broadway in Boston, extensive redevelopment with participation from other funding sources. In some cases, because of the condition of the structures and site, these commitments extend beyond the component replacements identified in the CIIS system. The more comprehensive work is needed to keep or return these developments to full occupancy. These unanticipated expenditures, sometimes far beyond the CAR awards, place an additional funding strain on available resources. The current estimate for these major construction projects exceeds $74.4 million.

Two Cambridge Housing Authority examples of comprehensive modernization are described in detail in Appendix A, page 60. They are included to help document the scope of modernization projects and the costs typically incurred.

TABLE 11 Comparison of State and Federal Modernization Programs

	State modernization	Federal modernization
Funding	Bond bills every 4–5 years. Annual expenditures capped by the Executive Office of Administration and Finance.	Annual appropriations.
Priorities for funding	Established by DHCD for specific project activities such as roof replacement or electrical upgrade.	Established by housing authority based on one-year and five-year plans approved by HUD. Automatically approved if HUD doesn't respond in 75 days.
Distribution of funds	Application made by housing authorities to DHCD for specific project work items. DHCD uses scoring system to approve top ranked work items for specific $ amounts. No funding available for unsuccessful authorities unless there is an emergency.	By formula.
Project scope	Detailed scope prepared by DHCD or by housing authority then negotiated with and approved by DHCD.	Outline scope prepared by housing authority. (More detailed scope prepared with selected designer).
Designer selection	Authority advertises for design services. Selection of firm by DHCD Designer Selection Board. (At local option housing authority can have its own designer selection board to rank top three to five firms selected by DHCD Designer Selection Board.)	Authority advertises for designer services. Authority selects designer.
Design fee	Set by DHCD.	Set by authority or negotiated.
Design contract	Approved and signed by authority then approved by DHCD.	Approved and signed by authority.
Design	Managed by authority or DHCD depending on local capacity. All submissions approved by DHCD.	Managed and approved by authority.
Changes in scope and changes requiring more $ for design and construction	Approval by DHCD Increases in $ negotiated between housing authority and architect—approved by DHCD.	Approved by authority. Authority adjusts five-year plan.
Bidding	Project approved for bidding by authority and DHCD.	Project bid by authority.
Award of bids	Approved by authority and DHCD.	Approved by authority.
Construction	Managed by authority with oversight/supervision from DHCD.	Managed by authority
Construction payments	Approved by authority and DHCD.	Approved by authority.
Change orders	Approved by authority and DHCD.	Approved by authority.
Project close-out	Approved by authority and DHCD.	Approved by authority.
Time to complete from time of appropriation to close-out	Estimated at 3 to 6+ years	1 to 3+ years. HUD requires obligation of funds within 2 years.

Watuppa Heights *in Fall River is an example of state-assisted housing that for many years received very limited modernization funding and has fallen into disrepair.*

Fr. Vincent Diaferio *in Fall River—a federally aided development that is similar in design to Watuppa Heights, but has received modernization funding and, as a result, is in much better condition.*

COMPARISON OF STATE AND FEDERAL MODERNIZATION PROCESS

The State Modernization Process

DHCD closely manages the modernization work, from choosing which authorities are awarded funds through completion of construction.[40] The need to provide this oversight is due to several factors, including:

- the need to satisfy statutory requirements
- the need to prioritize the limited funding across a large inventory
- the need to manage the annual funding cap
- a history of past irregularities of some LHAs
- mandated construction-oversight requirements following the report of the Special Commission Concerning State and County Buildings[41]
- the technical assistance needs of many small authorities.

As summarized in Table 11 (page 26), each step along the way is monitored and requires DHCD approval.[42]

Under the DHCD process, the scope of work is developed in detail either by LHA or DHCD staff prior to advertising for an architect. The fee is set by DHCD. The DHCD Designer Selection Board then chooses an architect. Some authorities also have a local designer selection board which, after the state board acts, can choose from the top three choices. The design contract is approved by DHCD as is each design submission, change in scope, and award of bids. Construction is monitored by DHCD. Some smaller authorities rely on DHCD to manage the construction. Construction payments, change orders, and project closeout are approved by DHCD. Because there are so many projects, the state has had to prioritize its work, and some authorities may wait for several years before they get to the head of the line.

This complicated arrangement, some of it required by statute to avoid the abuses uncovered in the 1960s, obviously takes time and heavy use of staff resources by both the LHA and DHCD. This adds to the overall

[40]Regulations for the modernization program are contained in 760 CMR 11.00; Modernization and Development of State-Aided Housing.

[41]The Special Commission was created in 1978 and is commonly known as the Ward Commission. It was directed "to investigate and study as a basis for legislative action the existence and extent of corrupt practices and maladministraion concerning contracts...related to the construction of state and county buildings."

[42]Cambridge, under a demonstration agreement, has been able to get a waiver to some of the oversight procedures.

Scattered site housing in Amherst—3000 homes have been built under the Chapter 705 scattered site program since it was first authorized in 1966.

Linden Street Apartments *in Needham are examples of the 20,500 two- and three-story walk-up apartments constructed for the elderly under the Chapter 667 program.*

Westwood Apartments *in New Bedford—constructed in 1956, it is typical of the 4400 one-story cottage type units built in the early years of the Chapter 667 program for the elderly.*

Father Morissette Manor, *a multi-story elevator building in Lowell, was first occupied in 1981—an example of more recent construction under the Chapter 667 program.*

Curtis Apartments *in Worcester—here and at other family developments across the Commonwealth, there has been little or no funding available for landscaping and site improvements.*

cost of completing the work. Overlapping responsibilities lead to a lack of clarity about who is in charge of the project. We were also told that some architects will not compete for state work because of low fees or because of the drawn-out and complicated process that is involved.

The sixty-seven authorities with federal units use a parallel process that is very different. Since the early 1990's, HUD has followed a much more flexible approach.[43] HUD requires submission of a five-year plan of proposed work and annually funds each housing authority by formula.[44] Funding is predictable within the amount each year that is appropriated by Congress. It is also flexible—fungible—and can be moved from one project to another or delayed as scope and costs change. Decisions are made locally by the authority whose staff is familiar with local conditions and needs, rather than at a state level by an agency that needs to respond to 245 different authorities spread across the state.

The order in which work is done can also be determined locally. For example, an authority might choose to undertake interior or exterior work first depending upon local circumstances or it might choose to carry out more extensive and comprehensive work in one section of a development one year and then do another section at another time. Or, it might want to only partially replace a component—for example, replace half the roofs that are in the worst condition rather than replace all the roofs, despite the condition, because that was the only authorized use of the funding.

For federally funded modernization, the authority prepares the scope of work with technical assistance, if needed, by a consultant. Designer fees are set by the authority, as is the choice of an architect. Design, bidding, construction, change orders, and close-out are managed and approved by the authority. Frequently, federally aided projects are completed before a designer is even selected for state projects.

Federal capital funds can be used for purposes related to modernization including: deferred maintenance, management improvements, demolition and replacement, relocation, economic self-sufficiency programs, security, and homeownership programs for public housing residents. This flexibility of uses allows LHAs to target the funds effectively where they are most needed.

[43]Criticism as to how the federal modernization process was being managed was discussed for a number of years before major changes were made. In 1980, Raymond J. Struck in his book *A New System for Public Housing: Salvaging a National Resource*, Urban Institute 1980, (page 98) put it this way: "A comprehensive, efficient approach is simply impossible under the HUD priority work item—variable funding regulations.... Overall, it is difficult to think of the current modernization program as a program at all. It is a set of disparate elements that have been stapled together with the result being severe impediments to the efficient use of the appropriated funds." In 1987 the Council of Large Public Housing Authorities (CLAPHA) prepared a report for Senators Cranston and D'Amato of the Subcommittee on Housing and Urban Affairs titled *Recommendations for Future Directions in Low-Income Housing Policies and Programs in the United States.* Their first recommendation (page 4) was: "More flexible types of systems for funding modernization in the future are needed, systems which offer more predictability and more local control over the types of work to be carried out."

[44]Section 519 of the Quality Housing and Work Responsibility Act (QHWRA) of 1998 provides assistance from a capital fund which is dispersed by a formula that takes into account such factors as the number of units, their age and size, and use (family or elderly). Prior to 1998 housing authorities with more than 250 units received funds by formula through the Comprehensive Grant Program (CGP). As of 1999, following the passage of QHWRA in 1998, all authorities with federal units are included.

While the present DHCD system gives the state the ability to target limited funds, it also requires that it, in effect, run a statewide public housing program. Such a system, despite the conscientious and hard work of DHCD staff, is expensive and time-consuming to operate. In our judgment, the system should be substantially modified so that the limited funds that are available can be spent in a timely and cost-effective manner based on decisions made at the local level. DHCD should monitor and audit LHAs and provide technical services to those authorities that need them.

COMPARISON WITH FEDERAL PUBLIC HOUSING CAPITAL EXPENDITURE LEVELS

There are 34,000 federally aided units in Massachusetts. Except for its higher proportion of units for the elderly and disabled, the state inventory largely mirrors the federal program in both age and design characteristics. Capital funding assistance for federal units in 1999 was $75.1 million, or about $2,200 per unit per year.[45] This is in contrast with the current state funding level of about $40 million per year, or $800 per unit—a little more than one-third of the federal capital funding level.

In addition, HUD has provided a program for more comprehensive renovation of distressed projects. The Major Renovation of Obsolete Projects (MROP) provided $28,423,600 to three Massachusetts housing authorities, Boston, Cambridge, and Fall River, over the last ten years.

At the present time, HUD's HOPE VI program is the only major federal capital resource for complete development revitalization. Five Massachusetts LHAs have received HOPE VI funding—three for family developments and two for the elderly.[46]

To the Commonwealth's great credit, over the past ten years the federal program has also benefited from a number of special state modernization awards made directly to LHAs and from the appropriation of $8 million in state funds under the State-Aided Federal Public Housing Modernization Program (SAFPHM). These funds allowed a higher level of modernization than would otherwise have been possible.

AN ESTIMATE OF CAPITAL NEEDS FOR STATE-AIDED PUBLIC HOUSING OVER THE NEXT TEN YEARS

The capital needs of the inventory will require an investment of $1.47 billion over the next ten years. An investment of this magnitude is needed to stabilize and reinvigorate the inventory for service for next several decades. While the number sounds large, it represents an investment, on average, of only $30,000 per unit. The cost to build 50,000 new units would be $6.6 billion.

The estimate is a conservative one, designed to stabilize the units. Unless absolutely required by the level of physical or design distress, little major redevelopment is envisioned. Seventy-seven percent of the units would receive only component replacement, while another 20% require more comprehensive modernization. Only three percent of the units, mostly in larger developments, will require major redevelopment.

A primary goal of this study was to identify the capital needs of the state-aided inventory. In reaching an estimate covering the next ten years, a number of information sources were used, including:

- DHCD data
- survey results
- analysis of the costs of major construction efforts that are planned, underway or completed.
- comparison of federal funding levels
- recent construction experience of a number of housing authorities

Until DHCD completes the capital needs survey initiative it has begun there is no detailed statewide inventory of conditions. However, based on the sources listed above and discussions with those in the field, a conservative estimate has been made for each of five

[45] Based on 1999 Department of Grants Management, HUD Washington print out for 29,000 units in the 21 Massachusetts authorities that have 250 units or more.

[46] Family development awards have been made to Boston (2) and Holyoke. Elderly awards have been made to Cambridge and New Bedford.

TABLE 12 10-Year Estimate of Modernization Need by Unit Type and Level of Capital Need

Unit Type	# of units*	Component Replacement (Cost range) average	Units	%	Comprehensive Modernization (Cost range) average	Units	%	Major Redevelopment (Cost range) average	Units	%	TOTAL
Ch. 200											
3 story walk-up 22 projects	4150	($30–60,000) $45,000	2,075	50%	($50–90,000) $70,000	1,245	30%	($130–170,000) $150,000	830	20%	**$ 305,025,000**
Townhouse 99 projects	8600	($20–50,000) $35,000	6,880	80%	($40–80,000) $60,000	1,118	13%	($70–100,000) $85,000	602	7%	**$ 359,050,000**
Ch.705											
Scattered site	3000	($5–35,000) $20,000	2,700	90%	($30–50,000) $40,000	300	10%				**$ 66,000,000**
Ch.667											
Elderly high-rise 82 projects	7500	($5–45,000) $20,000	5,000	67%	($15–50,000) $30,000	2,500	33%				**$ 175,000,000**
2–3 story elderly garden 409 projects	20,500	($10–20,000) $20,000	14,350	70%	($40–60,000) $30,000	6,150	30%				**$ 485,850,000**
One story elderly 144 projects	4,400	($10–20,000) $15,000	3,520	80%	($30–40,000) $35,000	880	20%				**$ 83,600,000**
Total units	48,150		34,525	72%		12,193	25%		1,432	3%	**$1,474,525,000**

building types in three different categories, as outlined in Table 12.

The range in cost reflects the varied conditions that will be encountered over this ten-year period. At the low end, needs could be covered through an adequate replacement reserve for some of the elderly/disabled developments and by substantial component replacement and site work for some family developments.

The following list represents the three levels of intervention used as a basis for determining cost ranges. These levels—component replacement, comprehensive modernization and major redevelopment—address the needs of most of the developments in the inventory.

Level of Capital Improvement Required

- **Component Replacement.** Assumes units are functional, fully occupied and in reasonably good condition. Modernization work is restricted to the replacement of a limited number of components at the end of their useful life. Component replacement, combined with replacement reserve funding and adequate operating funding, should preserve the viability of the units for a twenty-year period, assuming modernization funds continue to be available.
- **Comprehensive Modernization.** Also assumes units are currently functional but showing increasing signs of stress, are more costly to maintain, and are more difficult to keep fully occupied. The developments need more extensive modernization and site improvements to maintain livability, marketability, or security. The modernization cost may include shared entry redesign to improve security. This category would also include funding to convert, expand, or adapt some of the elderly units in developments that are difficult to keep occupied.
- **Major Redevelopment.** Extreme deterioration and/or high vacancy rate. Building conditions are poor requiring extensive repairs to put them back on line. Project design may be so obsolete as to be dysfunctional. Component replacement or even comprehensive modernization is inadequate to change the character, security, or isolation of the development. Less than major redevelopment will not insure viability. Project requires major rehab or new construction. Changes in interior layouts, reductions in units served by common stairways, and changes to building and street pattern are required.

A development with no capital needs in 2001 will still need a capital reserve on the order of $300 per unit per year for family units and $250 per year for the elderly in order to make ordinary repairs, avoid deferred maintenance, and to replace obsolete appliances and other basic equipment. The replacement reserve, by itself, comes to nearly $13 million per year ($130 million for 10 years).

Table 12 shows an estimated capital need of nearly $1.47 billion ($147 million per year) exclusive of any inflation, but including, design, construction, relocation, and LHA administrative costs. It also includes costs for those projects now in planning and design.

3

Management Comparison of State Public Housing and Other Private and Assisted Housing

Public housing in Massachusetts is underfunded in both capital and operating costs compared to federal public housing and with other state assisted housing. In addition, mandated rent levels, inability to refinance, and other funding limitations have made it impossible for LHAs to use traditional asset management techniques to upgrade the portfolios in a timely and responsible manner.

This section compares the practice of asset management in the private market with the public housing program, including the use of capital improvement planning and the establishment of operating costs. It also compares public housing operating costs with other public and private rental housing programs.

In considering the capital and operating needs of the Commonwealth's state-aided public housing stock, it is instructive to compare it with other private and assisted housing in the areas of asset management and operating costs. Public housing is in a unique position. On one hand, it is real estate, with residents, capital needs and operating constraints like any other multi-family housing. Yet, unique among other real estate enterprises, public housing is highly regulated, starved for capital, and generally not in full control of the resources that are necessary for its operation and stability.

Public housing exists in a separate and parallel universe. It operates as if the laws of real estate and finance do not exist. Placing public housing within the mainstream of multifamily housing and comparing it with other real estate highlights the differences that have structurally inhibited public housing and are largely responsible for the difficulties facing the inventory today.

ASSET MANAGEMENT

When public housing management and operations are viewed in the context of the rest of the world of real estate, it becomes apparent that the approach to the portfolio on issues of budgeting, control, investment decisions, market, and long-range planning is substantially different.

The concept of asset management is very different for public housing than for conventional multifamily housing and even other assisted housing. In the private sector, asset management is an old concept. While all in the private sector may not agree on a definition of asset management, generally it is commonly understood to be the owner's responsibility for overseeing the current and future well-being of a property beyond the day-to-day functions of building maintenance, rent collection, and dealing with tenants. Owners must also consider responsibilities to lenders and regulators as well as the property's long-term future investment prospects and needs.[47]

[47]See discussion of asset management in Rachel Bratt, Langley Keyes, Alex Schwartz and Avis Vidal. 1990 *Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector.* Community Development Research Center. New School for Social Research.

Greg Byrne, former director of the Miami-Dade County Housing Authority and a leading authority on affordable housing asset management, defines asset management as "the process of managing investment decisions for a portfolio of properties based on the mission and/or investment objectives of the owner."[48] To do that, Byrne suggests that asset management be thought of as a process that presumes the existence of systems to observe trends and measure performance. These systems would include project-based budgeting, a property-based performance monitoring system, and market and physical need data. This data, combined with the mission and objectives defined by the owner, guides investment decisions for the property over the short and long term.

Private and nonprofit owners use data, more or less competently, to make portfolio asset management decisions. Lenders require reporting and data updates so that they are assured that proper decisions are made and the viability of the properties is preserved. The market is regularly reviewed and targeted. Reserves for replacement of obsolete systems and equipment are built into the operating budget to insure that funds will be available to upgrade and repair as necessary over the life of the project.

While DHCD has embraced the concept of asset management and has started to use tools and approaches of the private sector, public housing in general has a markedly different approach to asset management. Many of the tools of analysis, such as project-based budgeting and market information, are missing from the arsenal of information necessary to make informed decisions about the long-term needs of the developments.

CAPITAL PLANNING

Since the introduction of Comprehensive Grant funding for the federally aided inventory in 1992, housing authorities have been able to engage in long-range capital needs planning for these units. This has not been true of the state inventory, which is still subject to periodic bond allotments resulting in competitive funding targeted in general to the most serious health- and safety-related problems. Because of the sporadic and unpredictable nature of the modernization funding, no such comprehensive physical needs assessment and long-range planning has been possible, or, more to the point, worthwhile for the state inventory.[49]

Contrast both the federal and state public housing modernization funding with the private market approach to capital resources. Two methods exist to address the capital needs of private housing.

1. For routine and predictable replacement of parts and equipment, upgrades to systems and some betterments, a replacement reserve is built into the operating budget.
2. For bigger projects and more expensive repairs and upgrades, refinancing is available. The end of the useful life of the project is frequently timed to coincide with the payoff of a portion of the financing. Refinancing the project injects a capital infusion to extend the life of the project. In addition, owners may refinance more often to take advantage of more favorable financing terms.

OPERATING COSTS

In budgeting for operating costs, private owners can assess the market and increase rents where necessary to cover costs. Public housing rents are not set by the market but by a set of highly regulated procedures and priorities that govern who may be served and how much rent can be assessed. In general, except for the brief period at the beginning of the program, by mission and regulation, LHAs have housed people at the lowest economic levels. The income of most public

[48]Gregory Byrne, "Asset Management and Public Housing," *Abt Housing Strategies.* Volume 1 Issue I Winter 1998.

[49]As noted elsewhere, DHCD utilizes the Comprehensive Improvement Inventory System (CIIS) which is moderately useful for identifying the useful life of components but is not an adequate capital planning tool. With the CHA, DHCD is developing an improved system for identifying and cataloguing capital needs. However, to achieve maximum effectiveness, modernization funds will need to be provided on a regular and predictable basis.

housing residents in Massachusetts is below 20% of median. The average rent paid by a public housing tenant in public housing in Massachusetts is only $266 per month.[50] Public housing managers are dependent on legislative budget appropriations to cover the shortfall between operating costs and tenant rents.

COMPARISON OF OPERATING COSTS

We have examined the AELs of state-aided developments and compared them with operating costs of other types of multifamily housing, both conventional and assisted. Placing Massachusetts public housing units in the universe of other managed housing provides a basis for evaluating the reasonableness of the existing approved operating costs of the Massachusetts inventory. It also sets some tangible benchmarks against which LHAs can measure the adequacy of their budgets.

Evaluating operating costs will help the LHAs and the state determine what are responsible levels to maintain. Operating costs are important to consider for a number of reasons.

1. The marketability and long-term viability of the stock are directly related to the quality of management and maintenance of the stock. Security, habitability, and marketability are higher in well-managed, well-funded developments.
2. Operating costs bear the burden of past shortages in capital investment. Because of the deteriorated condition and obsolescence of many state units, turnover is higher than in federal units in the same authority, resulting in more intensive staff work to turn around units. Normal maintenance is made more expensive and complicated by the lack of timely capital investment.
3. Similarly, the need for capital investment and for extraordinary maintenance increases when preventative maintenance routines are not affordable and repairs are not made in a timely manner because of lack of operating funds. A frequently cited example is that of a small leak becoming a major problem when not attended to promptly.
4. The inability to attract higher-income tenants is partially due to the quality of the units. Lack of adequate operating funding has resulted in deferred maintenance and deterioration of the stock particularly in family housing.

Table 13 (page 33) shows the comparisons drawn with inventory data gathered from the Institute of Real Estate Management (IREM) for both conventional and federal assisted housing, Massachusetts Housing Finance Agency (MHFA), HUD 202 elderly housing, and other federal public housing. Boston metro data were used for comparison for the IREM data. The HUD public housing data compares both Boston AELs and the average AEL for a medium-sized housing authority (500–1,250 units) in the Northeast. Public housing data are based on budget data, while MHFA and IREM data reflect actual operating costs.

The operating cost data are presented as net of utilities and taxes to make the comparisons applicable across different inventories and methods of presenting operating costs. Because much of the published data do not differentiate between family and elderly housing, except for the HUD 202 data, the study compares data available on a range of housing types and populations served.

The operating cost comparison is not meant to be definitive, but rather illustrative of the differential in costs among various types of programs.

There are numerous ways to compare the data: high-rise elderly, low-rise and garden, shared-entry family and townhouse. Because the databases varied considerably in the presentation and comparative data, for the purposes of this research overall program averages were used. All sources have a mix of family and elderly units and a variety of building types included in the overall mix of unit operating costs reported.

The data highlight the low operating budget for Massachusetts LHAs as seen against comparable federal units and assisted units in the MHFA portfolio.

[50] DHCD data. FY 2000 Aggregate line-item expenditure report.

TABLE 13
Comparison of Operating Costs for Private and Other Public Housing and Approved Operating Budgets for State-Aided Public Housing

	State-AEL all housing average	State[51] public housing Ch. 667 elderly	State public housing Ch. 200 family	MHFA[52] all units elderly and family	HUD AEL elderly and family	HUD[53] 202 elderly	HUD AEL BHA
Annual operating costs*	$1,928	$1,752	$3,180	$4,045	$3,063	$2,468	$4,032

*Not including taxes and utilities

DHCD operating budget data reflect the recent increases, while the MHFA and IREM data are based on 1999 actual costs, making the contrast even more stark. When the age and condition of the inventory and the needs of the population being housed are taken into consideration, the contrast is even starker. Most of the Massachusetts family inventory is more than forty-five years old. For much of that time, investment both in capital improvements and routine maintenance has been less than the amount needed to keep developments in good condition.

REPLACEMENT RESERVE

Funding adequate replacement reserves is the first principle of asset management. Lenders who participate in funding private market and assisted housing require replacement reserves as part of the operating budget. The amounts vary according to the age of the development and the documented capital needs of the project. Replacement reserves ensure that funds are available to replace and upgrade systems when they wear out. They are an ongoing investment that allow owners to plan for predictable capital needs and repairs needs that cannot be paid for within the operating budget.

MHFA underwrites new projects with a replacement reserve of $275 per unit per year. This amount increases 4% per year. For refinancing, MHFA commissions a capital needs study and on the basis of the findings sets a replacement reserve adequate to meet the predicted capital needs over a twenty-year period. The reserve accounts vary in amount as funds are drawn and replenished. In addition, MHFA requires an updated capital needs and reserve analysis every three to five years.

TABLE 14 Replacement Reserve Funding

MHP	MHFA	MHIC
$275 per unit per year or more as required by the needs of the property	$275 or more for rehab depending on the results of capital needs study	$360 rehab; 275 new

Massachusetts Housing Investment Corporation (MHIC) standards track other lenders participating in the deal. However, when MHIC is the prime lender it establishes minimum thresholds of $360 per unit per year for rehab projects and $275 for new construction or gut rehab. Many developers add more and other participating lenders may require more.

The Massachusetts Housing Partnership Fund (MHPF) determines appropriate replacement reserve amounts based on the capital needs of the project.

Until FY 2001 authorities were not permitted by statute to establish replacement reserves. Reserves may now be funded, although money has not yet been available to do so. However, in FY 1998, the state did spend approximately $12.8 million on extraordinary maintenance, replacement of equipment, or additions and betterments, or about $250 per year per unit. That number is roughly the equivalent of a replacement reserve, although it doesn't function as one because of limits on access to it and the predictability. Table 14 shows the amount of replacement reserves required by Massachusetts quasi-public lending institutions.

[51]DHCD costs based on FY 2001 budget data.

[52]MHFA numbers are based on 1999 audited financials for all MHFA assisted developments

[53]HUD is FY 01 budget data.

TURNOVER OF UNITS

Turnover rates, meaning the number of units that are vacated and reoccupied each year, are higher in Massachusetts's developments than in those that are federally aided. This also drives up costs. Turnover in state-aided family public housing exceeds 14%. This compares to a 9% turnover figure for federal public housing.[54] LHAs report that the high turnover in certain state public housing units has been a drain on staff resources and on cash flow. Units may sit vacant for longer periods of time as staff attend to turnover in the federal inventory. The federal system rewards fast turnaround time with cash incentives. Housing authorities get to keep increased cash flow above a projected annual figure. Massachusetts uses a *disincentive* system of payment withholding to encourage faster turnaround of vacant units: after an unexcused vacancy of more than 60 days, LHAs lose subsidy funding for the vacant units.

In summary, in asset management, capital funding and planning, and amount of operating subsidy, Massachusetts's state-aided public housing falls short of industry standards. The Commonwealth needs to systematically address the failures in these areas and promote and fund healthy management practices that will help to sustain the inventory in the future. Additional capital funding and more flexibility in using it must be accompanied by adequate replacement reserve funding and increased operating budget levels. The combination will help to stabilize the physical needs of the inventory and avoid the convulsive infusion of competitively sought capital that is inadequate to meet the needs of the aging inventory.

[54]Multi-Family Tenant Characteristics System. www.hud.gov/ntcs/rcr.cfm

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Issues in the Modernization Debate

To determine how best to save public housing, underlying principles and beliefs about the program must be articulated and examined. This section discusses some of the policy issues regarding who should be served by the public housing program; income mixing and its relationship to mixed and leveraged financing; and access to other financing sources. Also covered is the proposed establishment of a state subsidy bank and the need to evaluate the changing market for low-income elderly residents.

The debate about the future of state public housing parallels much of the debate that has engaged housing authorities, advocates, and HUD. In fact, while the debate has been intense for the last decade, these issues have been at the heart of the discussion about public housing since the program was initiated.

How should government assist in providing housing for the lowest-income families and the elderly? Whom should the housing serve? What standard should be used for modernization? And how should scarce resources be allocated?

The key stakeholders need to review the issues framing the debate and establish assumptions under which they will proceed with solutions. Information about income groups to be served, the condition of the inventory and housing market is important to collect and understand. According to Greg Byrne, "Only after the public has a better understanding of the facts—the capital gap, operating cost, the ability to attract working families, potential rents, etc.—can it contribute in a meaningful way to the establishment of investment plans and objectives."[55] Different agendas and competing constituencies pull the debate in different directions. Yet continuing with the present inadequate system is not a viable option.

Issues such as the quality of the housing, use of public resources, income mixing, demolition, and the changes in the elderly housing market all need to be engaged. New strategies that challenge old ways of doing business will provoke lively debate.

This report does not attempt to provide answers to these thorny questions. Rather, it offers a context for the discussion the public housing community will continue to have in shaping a response to the choices that need to be faced in revitalizing an aging inventory.

Table 15 (page 39) provides a brief overview of the definitions of terms used in the conversation about the direction of public housing.

THE RELATIONSHIP BETWEEN INCOME MIX AND QUALITY OF HOUSING

The dots are intricately connected between income mix and quality of the housing. Family public housing was originally designed to serve working, temporarily poor households—primarily returning veterans. It was intended to be transitional. The units were underdesigned in size and amenities, because of pressure from

[55] Gregory Byrne. "Asset Management and Public Housing." *Abt Housing Strategies.* Volume 1. Issue 1. Winter 1998.

TABLE 15 Types of Mixed Financing

	Income Targeting	Income Mixing	Mixed Finance	Leveraged Finance
Definition	A tool to increase the range of incomes in public housing through preferences on the waiting list; attracting higher income households, usually in the 30–60% range but could be up to 80%.	According to HUD, income mixing implies a mix of public housing–eligible households and market rate households. In reality, income mixing can be any range of incomes including within public housing eligible limits.	Involves utilizing public housing and non-public housing resources like HOME, LIHTC, CDBG to revitalize public housing projects. Public housing operating subsidy is allowed to continue for a portion of the units.	DHCD's approach to increase resources for public housing capital improvements. Increased cash flow would leverage debt that would be guaranteed by the Commonwealth.
When used	QHWRA encourages PHAs to serve a range of incomes up to 80% of median while establishing a minimum percentage that must be available to very low-income households. Targeting also used in leveraged finance models to increase project cash flow and broaden access by working families.	Used in major redevelopments that hope to change the character of the development through lessening concentrations of poverty.	Traditionally used in HOPE VI but can be used in all public housing projects. It can simply mean access to non-public housing resources. The scope and quality of the rehabilitation must be sufficient to attract private investors if LIHTCs are used.	DHCD would use leveraged financing where income targeting can increase cash flow sufficient to pay debt service in projects that need rehabilitation in excess of what state bond resources can provide. Most effective where the quality of the stock and the market will attract the higher-income public housing tenants.
Who served	Low-income working households with incomes above the average can receive a waiting list priority. 75% of federal public housing units must serve households below 50%.	Broad range of incomes from public housing eligible to unrestricted market rate.	Can be all public housing–eligible households or a mix of incomes. If tax credits are used, most households will be below 60% of median. Continued use of public housing operating subsidy allows projects to serve very low-income households.	Still all public housing–eligible incomes. Income targeting would increase the range of incomes served in public housing by encouraging up to 40% of the units to serve households between 30–50% of median income.
Resources generated/ commonly used	HUD allows PHAs to keep increased income from year to year. The funds may be used to augment the capital or operating program.	Private debt can be leveraged for the market rate units.	LIHTCs—4% and 9%, HOME, CDBG, private debt, FHLB, Section 8.	Access to bond financing through increased cash flow and DHCD guarantee.

the private real estate interests who feared large-scale government programs would undermine their market interests.[56]

Now, despite the small size of the units and the lack of standard amenities, the housing is permanent housing for very poor families. As stated previously, the average rent in Massachusetts state public housing is $266.[57] Welfare reform has increased the number of working households in public housing, yet the families are still quite poor, earning less than $15,000 per year. This means that many residents are below the federal poverty level of $17,650, despite holding jobs.[58] Many residents are not, and will not be in the work force because of disabilities and other chronic conditions

[56]Albert Mayer, FAIA, "Public Housing Architecture Evaluated from PWA days to 1962." *The Journal of Housing.* No. 8 1962.

[57]DHCD Aggregate line item spending report. FY 2000.

[58]www.aspe.hhs.gov/poverty/01poverty.htm

that prevent them from having full-time work. As long as the incomes of these families are low, there will be the need to subsidize the difference between what families can pay and the cost of operating the development. No funds are left over to carry debt that could be used to improve the quality of the development.

Even if incomes were to increase, it is not clear that families with even limited other options will choose to stay in public housing. Peter Marcuse, a lawyer, urban planner, and Professor of Urban Planning at Columbia University, in a thoughtful article on mainstreaming public housing, has said that the problems of quality, architecture, location, and services must be addressed. "Given the limited attractiveness of much of the present public housing, a situation produced in large part by limitations on expenditures designed to make clear the lower status of that housing to all the world, the likelihood of producing a real income mix is slim.... not income limits, but limited quality limits, narrows the band of occupancy today."[59]

Others, too, have concluded that without large-scale investment in redesigning much of the inventory to more contemporary standards, it is unrealistic to rely on income mixing across much of the inventory to produce funding adequate to substantially improve the quality of the housing.

Allowing income mixing without substantial improvements is unlikely to produce the desired result (actually achieving a mix of incomes) except in a limited number of communities. However, in the face of declining resources and increased competition for them, there is an emerging acceptance that income mixing, within public housing limits, must be explored, particularly for those communities with desirable stock and severe housing shortages like Cambridge and parts of Boston. The delicate balance between what level of investment is sufficient to attract working families in the 30–60% of median income range and what investment is affordable through the increased project income will continue to be a focus of discussion.

An alternative is to decide that to maximize very low-income occupancy, a standard of adequate, though obsolete, housing can be adopted. Increasing the incomes of existing residents through job training and other services can help to stabilize developments, particularly if increases in tenant income can be kept within the development to pay for improvements. Ceiling rents can be an incentive to stay in the community as incomes increase. Without ceiling rents, the rent standard based on 30% of income may exceed the real or perceived market value of the unit. For example, if a family raises their income to $30,000 (less than 60% of median income in New Bedford, for example), their rent will be $750. At that price, the rent may be higher than the private market.

Of course, when housing is in short supply, it is natural that advocates will encourage moving families through public housing and into the private market quickly, so that the truly poor can be served.

The debate about income mixing or income targeting, essentially the debate about whom public housing should serve, is one laden with ideology, politics and practical economics. However, these important issues must be faced squarely if progress is to be made in stabilizing the inventory.

SOCIAL CAPITAL

In addition to the economic benefit that would come to the housing authority and the development in terms of increased cash flow and ability to leverage debt, there is a social component that many consider to be of equal consequence. That is, the idea that 'social capital' is a key component of socially healthy and economically viable communities and that income mixing within a development allows families to form the connections—the social capital—that allows them to advance socially and economically.[60] DHCD's vision of leveraged financing encourages a public housing community that

[59]Peter Marcuse. "Mainstreaming Public Housing," in *New Directions in Urban Public Housing*, ed David P. Varady, Wolfgang F.E. Preiser, and Francis P. Russell 1998. Page 36.

[60]Lewis H. Spence "Rethinking the Social Role of Public Housing." Cited in an internal memorandum by Michael Feloney Cambridge Housing Authority. May 1997.

is an integral part of the surrounding neighborhood, with residents moving toward self-sufficiency.

The community benefit of encouraging working families who have increased their incomes to stay in public housing and provide peer models and networks to a larger world is substantial. The presence of working families achieving economic independence reinforces the possibility of success and gives hope to families in the public housing community.

HUD INCOME MIXING AND TARGETING

In discussing income mixing, the definitions need to be clearly understood. HUD's *Mixed Finance Guidebook*[61] defines mixed income as housing that includes both public housing and non-public housing units. In general, by contrast, income targeting is HUD's way of talking about broadening the income range of residents within public-housing-eligible income limits (0–80% of median).

HUD, through the Quality Housing and Work Responsibility Act (QHWRA) of 1998, and the Moving to Work (MTW) demonstration, approved by Congress in 1996, encourages housing authorities to increase the mix of incomes in the developments through 'income targeting.' With protections to insure that housing authorities continue to serve extremely low income households, the authority has flexibility to income-target about 60% of the units. The QHWRA income requirements are: in any fiscal year, not less than 40% of the units occupied must be occupied by families whose income at initial occupancy does not exceed 30% of Adjusted Median Income (AMI); the balance may be occupied by families with incomes up to 80% AMI. Section 8 assistance must target 75% of the units to households below 30% of median. If the authority exceeds the Section 8 target, more flexibility is granted for occupancy by higher income households (up to 80% AMI) of the hard public housing units.

The HOPE VI program explicitly rewards mixed-income projects. The HOPE VI program dictates a mix of public housing–eligible incomes and market-rate households. There has been increasing debate about the direction and cost of HOPE VI. While the revitalization and integration of public housing is welcome, the loss of units to very low-income persons that occurs with most HOPE VI projects has been seen as a more dubious outcome by many housing advocates.

The high cost of the HOPE VI program will continue to insure that only a small percentage of federally-aided public housing units can be revitalized through this program. The use of other scarce housing production resources to supplement HOPE VI funding has also caused some concern with funders, particularly state and local developers and nonprofits who see HOPE VI projects competing for scarce local funds.

The long-term HUD goals of (1) saving units from loss through decay and abandonment, (2) removing the isolation of public housing, and (3) fostering economic independence among the residents of public housing through job training and other self-sufficiency programs are laudable. However without a national production program to replace and increase the supply of low-income units, the debate over the wisdom of the HOPE VI approach will continue.

DHCD LEVERAGED FINANCE APPROACH

DHCD has put forth a new vision for financing public housing called 'leveraged financing.'[62] Recognizing that state public housing developments need rehabilitation in excess of what state resources can provide, DHCD is exploring income targeting as a way to create sufficient cash flow in the developments to leverage debt which would be used for repairs and upgrades. DHCD recognizes that, in the short term, units available to the lowest-income families would be lost, but over the long term increased investment and higher incomes could mean viability for units that might have otherwise been lost through deterioration or political abandonment.

[61] The Mixed Finance Guidebook. U.S. Department of Housing and Urban Development. Prepared by Abt Associates Inc. December 1998.

[62] *Bringing Down the Barriers: Changing Housing Supply Dynamics in Massachusetts.* Policy Report No. 4 by the Department of Administration and Finance of the Commonwealth of Massachusetts. October 2000.

For a leveraged-finance development, DHCD will freeze the operating subsidy so that increased rents can be applied to payment of debt service. The loans are used to complete an upgrade to the property that will stabilize it and make it possible to market the units to higher income families. Through a sophisticated bond-guarantee mechanism, housing authorities can attract, and make private financing sources comfortable with, investing in public housing.

A few communities where the high cost of housing and the relatively good quality of the public housing overlap may benefit from the leveraged finance approach. DHCD has been creative in exploring options and refining the program.

MIXED FINANCE

An extraordinary amount of funding will be necessary to address the backlog of capital needs for the inventory of 50,000 state units and to revitalize more comprehensively a smaller number of units in selected developments. Even a commitment to fully fund simple component replacement of expired parts, such as replacement-in-kind for forty-year old kitchens and baths, exceeds a billion dollars. Practical realities dictate that a series of strategies, including ones that leverage other public and private funds, be explored.

Mixed finance, according to HUD's definition, generally involves using state, local and federal funding in partnership with developers and other non-LHA entities to revitalize public housing. LHA operating subsidy can be used in combination with other resources to achieve a feasible and affordable project.

In its broadest definition, mixed finance means that other resources are introduced into public housing, particularly for capital expenses connected to revitalization. These resources are generally Low Income Housing Tax Credits (LIHTC) (both 4% and 9% credits), HOME funds, CDBG funds and money from other state or local funds such as Housing Trust funds.

While in many cases a private developer is involved, with the LHA playing a greater or lesser role, partnership with a private development entity is not necessary for a mixed-finance development. A private developer is not necessary if the LHA has the internal resources and capacity to undertake a complex real estate transaction. Technical assistance can help augment the capacity of an LHA to control the development. LHAs can control and manage the property over the long term, even if a developer is brought in to help manage the project and put the financing package together.

In Massachusetts, mixed finance has been used for the successful revitalization of federally aided HOPE VI projects such as Mission Main and Orchard Park in Boston. State and federal funding successfully transformed these communities and changed the face of public housing.

In Cambridge, eighty-three obsolete elderly housing units at the John F. Kennedy Apartments will be retrofitted to provide assisted living services to an aging, elderly population through the use of state tax credit and other targeted resources for the elderly and special needs populations. The Cambridge Housing Authority has acted as the developer and will set up a subsidiary to pass through the tax benefits, while maintaining long-term control of the development.

ACCESS TO OTHER STATE-ALLOCATED RESOURCES

As Massachusetts experiences a growing housing shortage and affordability gap, pressure on public subsidy sources has increased. State funding rounds, held twice a year, are swamped with proposals, and requests frequently exceed funding availability by a ratio of 4 to 1. In response to the need to preserve as much housing as possible, even as new units are produced, DHCD has set goals to steer funds to the preservation of housing. For allocating tax credits, DHCD had set goals of 60% and 40% for preservation and new production respectively. The goal has shifted in FY 2002 to a 50-50 split. The preservation projects include HOPE VI public housing and expiring use projects. Priority is given to projects that are at risk of being lost to the private market. Preservation also includes existing affordable housing that needs major capital infusion and refinancing.

In the last four years, through the LIHTC program, DHCD has funded about twenty large preservation projects, with an average development cost of $87,800 per unit.[63] Large HOPE VI projects, in Boston and Holyoke, arguably comparable to some of the state-aided projects in worst condition, have also received significant amounts of state-allocated LIHTC funding. Funds for renovation have gone to a number of projects with capital needs far below the capital needs of the state-aided stock.

State public housing has been excluded from this pool of funding. One reason is that the stock is not considered to be 'at risk' since it is publicly owned. The policy of funding state public housing through bond bills has given state-aided public housing a low priority for access to other highly competitive public resources. Increasingly, however, some state-aided projects are at risk of losing viability as the conditions deteriorate and costs to restore the units soar. These are the projects that are most vulnerable to community pressure to be demolished. Some communities question the benefit of having distressed public housing projects without an effective means to intervene to preserve them. They fear that the limited modernization funding available is 'too little, too late.'

In the face of the backlog and the need for investment in the state inventory, the policy of keeping other state resources off limits to state public housing should be reexamined.

Use of tax credits could add needed capital to the financing tool kit. Now, when the amount of tax credits allocated to the states has increased, is an especially good time to examine the possibility of allowing state-aided public housing to access this pool of funds. The combination of limited operating and modernization funding, constrained bond cap at DHCD, and continued and even accelerated deterioration of the stock requires that other sources of funding to preserve the inventory be examined.

Chapter 5 explores the use of these additional resources more fully.

[63]DHCD. Private Rental Housing tax credit allocation list for years 1997–2000.

LOSS OF UNITS AND REPLACEMENT HOUSING

The state-aided inventory has the potential to lose units through a number of scenarios. Very few units are lost through deterioration. Units that are vacant because they are uninhabitable make up only a small portion of the state-aided inventory. If units reach an unoccupiable state, DHCD usually makes emergency funding available to bring them back on line or negotiates with the LHA for a more comprehensive scope to bring the development up to full occupancy. However, units continue to be at risk:

- Major upgrade or redesign in family developments can result in a loss of units. Redesign to increase functional space in family units or to create private entries or state-of-the-art handicapped-accessible units is likely to reduce overall unit count.
- A change in the market for elderly units and a rethinking of the design standards and service needs of the elderly may also result in a loss of units. A portion of the elderly stock, about 1,000 units, are less than 300 square feet. Breakthroughs to achieve more adequately sized units may be one solution but doing so would reduce the total unit count.[64] Creating space for services may also cause unit reduction.
- Site improvements can lead to loss of units. Some family developments, particularly those with shared-entry walk-up apartments are very dense, are isolated by internal street patterns, and lack site amenities. Others, particularly elderly developments, have little parking. Minimal unit reduction to improve site circulation, and to increase green space or playgrounds, parking, and curb appeal has been considered and approved in limited cases.
- As units deteriorate and are occupied only by very low-income households, some communities fear that the resources available are not adequate to

[64]In the federally aided program, the consolidation of units does not impact the amount of subsidy received. This allows the combining of units with no loss of subsidy to the authority.

bring the housing up to community standards. Or they fear that funding, when it finally does arrive, is 'too little too late.' Communities worried about the condition of their state public housing stock need to know that there is a practical, funded strategy for adequate renovation that will preserve the long-term viability of the units.

Public housing advocates are constantly wrestling with the twin dilemmas of protecting all units and ensuring good quality. In some developments, a modest loss of units for practical quality of life reasons may be acceptable. A rigid no-loss-of-units requirement can limit the tools that an LHA has to work with in maintaining the housing. At the same time, the units are too precious to lose without replacement. But, currently, no funding for public housing replacement exists.

This conundrum will continue until new production programs begin to address the enormous need that low-income families have for homes. For now, an awareness of the issues in the debate will help communities and policymakers make more informed choices about how to maintain the inventory as well as the quality of the housing.

Though loss of units is the 'third rail' of the affordable housing debate, practical and nonideological solutions should be developed to mitigate the effects of loss. First, a rational system for determining when unit loss will be allowed and under what circumstances must be established. The system must be flexible enough to accommodate legitimate design, cost, and quality-of-life constraints while requiring a reasonably high standard of proof and mitigation if units are to be lost.

ESTABLISHMENT OF A STATE SUBSIDY "BANK"

One proposal to deal with unavoidable unit loss is to establish a mechanism that would capture the subsidy that is made available when units are unavoidably lost and use it to create new public housing units, leveraging the publicly assisted private market. This subsidy bank would take surplus operating subsidy from units that are decommissioned with permission and apply it to other developments on a regional basis. The community that decommissions the units should retain first priority to replace them for some period of time. If the case for loss of units can be justified, DHCD would grant approval and then earmark the operating subsidy attached to those units to increase the affordability of units in developments created with other state resources. A limit would be placed on how much subsidy could be in the bank at any one time in order to limit requests for unit decommissioning.

The development bank would be used in limited cases. It would not be used where keeping the operating subsidy with a development would help the development leverage debt to pay for unit improvements. An example is where a minimum number of units is lost because of breakthroughs to increase unit size and livability. In those cases, allowing the LHA to utilize the full previous operating subsidy allocation could allow them to participate in leveraged financing with the excess cash flow.

In some circumstances, particularly where creating units back on site is socially or physically infeasible, a development bank would allow for the creation of fixed, public housing units in the system to replace the lost units. Having this available on a regional basis would facilitate the production of low-income units outside of core urban areas and create more opportunities for families who need public housing.

For example, a suburban town may be interested in creating new affordable housing and can amass enough HOME and tax credit financing to create a thirty-unit development. Tax credit units are required to serve households below 60% of median. Generally only families between 40 and 60% of median can afford the rent in these developments. With an allocation of excess public housing operating subsidy, some units in this development could be set aside for families below 30% of median, a more typical income of public housing families. The ability to distribute operating subsidy on a more regional basis will increase regional participation in solutions to the housing crisis for very low-income households and will increase mobility for low-income families.

Links to the recently established Affordable Housing Trust Fund will increase the effectiveness of the subsidy bank. In the absence of any new public housing development production program, this creative approach to more regional distribution of public housing, while allowing appropriate de-densification where necessary, warrants serious consideration.

ELDERLY HOUSING MARKET CHANGES

When the first elderly housing units were developed in Massachusetts, elderly poverty and poor housing conditions were serious problems for senior citizens in Massachusetts. The creation of more than 30,000 state-aided elderly units dramatically changed the situation and created safe and decent housing for elders in many Massachusetts communities. Since that time other programs, including HUD's Section 202 program for the elderly, have created thousands more units. These newer units are generally larger and have better amenities.

The demographics have changed, as have the expectations and needs of the senior population. While a 250 square foot studio may once have looked attractive to an elderly person leaving a cold water six-story walk-up in an unsafe neighborhood, it is no longer so attractive an option given the other choices available. These small one- and two-story units are often perceived as less safe than high-rise elderly buildings and lack the scale to accommodate the on-site service component that many elderly persons need to continue to live independently. The site may not be accessible to people with disabilities, and it may not have a sufficient amount of parking located close to tenants' homes.

Elderly people are living longer and aging in place. Second-floor garden apartments without elevators may not serve the needs of a population in their eighties. Developments without services may not meet the needs of a frailer population.

Dealing with the match between the physical inventory and the present-day needs of the elderly is a challenge. The changes in demographics and need must be analyzed to develop better options that will serve this population into the future. There may be a need to make changes in the way housing is provided. A site that no longer serves elderly well may provide an opportunity to develop family housing in a suburb with a shortage of land. Or a mix of family and elderly housing could be developed similar to the mix of housing types and occupants present in stable and successful neighborhoods. As noted earlier in the report, DHCD is undertaking a study to review the possible options for maximum use of elderly developments.

5

Strategies for Preserving the Inventory

The Massachusetts state-aided portfolio needs an investment of almost $1.5 billion over the next ten years. A series of strategies is required to leverage funding and to use resources effectively.

This final section of the report reviews various investment strategies for preserving the existing inventory. These include more efficient use of existing resources; access to additional resources; an increase in the level of supportive service; possible federalization of some portion of the units; the need for a limited development program that would help enhance and preserve the existing inventory; the need for "best practices" and technical assistance; and proposals for a legislative agenda.

An estimated $1.5 billion dollars should be invested in Massachusetts's public housing in the next ten years to protect the stock and preserve the Commonwealth's housing investment.

Massachusetts has invested millions of dollars in the development and maintenance of the 50,000 units in the state-aided public housing inventory. This investment has created a valuable base of decent and safe housing that can, if maintained, continue to be permanently affordable for future generations.

Massachusetts continues its commitment to the stock through annual operating subsidy appropriations and through modernization funding authorized through bond bills passed by the legislature every three to five years. However, the funding has not kept pace with the needs of the housing. The aging portfolio needs increasing attention simply to maintain habitability. The needs of the portfolio have been described in previous sections of the report, but, briefly, they include the need for component replacement, comprehensive modernization, and, in rare cases, major redevelopment.

Based on the projected average capital needs of the Commonwealth's 48,500-unit family and elderly portfolio (but excluding special needs units), this report has calculated the investment required to stabilize the stock and preserve its viability over the next several decades.

Funding at this level of $1.47 billion, or $147 million a year, would represent an increase of over three times the current annual investment in modernization (approximately $42 million a year).

Even an increase to $100 million a year in funding would barely bring state spending into line with federal modernization spending on the federally aided public housing inventory. HUD currently spends $75 million per year on the 34,000 federally aided public housing units in Massachusetts.[65] That is $2,200 per unit per year with which federal developments can address their modernization needs.

The federal government is seldom accused of overfunding Massachusetts's public housing. **Yet the investment of the federal government in these federally aided units dwarfs the Massachusetts investment in our own inventory.**

If Massachusetts public housing were to receive modernization funding comparable to the federal

[65]Department of Grants Management. HUD Washington. Data from federal records on the Comprehensive Grant Program (CGP).

Public housing serves a diverse group of young and old low-income households.

formula, the yearly modernization amount would be $110 million per year rather than the $40 million now spent. This figure is very close to the number that is estimated as necessary to address the backlog of need.

The cost of inaction, already high, will continue to increase. Loss of units, displacement of very low income families, neighborhood deterioration and security problems emanating from distressed developments will be a steep price to pay for the continued lack of timely and targeted investment.

INVESTMENT STRATEGIES

The goal of this study is to promote the continued viability of the state public housing stock for low-income families, the elderly and persons with disabilities. Achieving this goal requires:

- new, increased funding
- process reforms to improve the flow of funds and increase their efficiency
- new ways of doing business by both the program administrators and the LHAs
- partnerships with communities, tenants, and other public and private sector institutions to help spread the cost and burden of revitalizing the inventory.

No one is unmindful of how such a large investment would stretch the resources of the Commonwealth. It is incumbent upon the stakeholders to develop new tools and resources. It should also be noted that if new strategies are adopted, such as funding annual formula capital grants, increasing operating budgets and funding replacement reserves, these changes will allow LHAs to wean themselves from large bond bill infusions.

To preserve state public housing a series of strategies and tools must be employed. One size does not fit all. This section lays out a variety of mechanisms to address the varied degrees of distress in the inventory. From the simplest—funding of a capital reserve—to more complex real estate transactions like assembling mixed-finance redevelopments, the solutions must be appropriate to the problem.

For example, adequate, functioning housing, with strong waiting lists and limited deferred maintenance probably does not need major redesign. Similarly, obsolete undersized units in developments with no play space and twelve families on an entry with little or no security or defensible space cannot survive with simple in-kind replacement of kitchens and baths. Each development and each community must assess and address their needs realistically with help from DHCD.

The following are strategies to increase and leverage resources and to use those resources imaginatively and efficiently. If adopted, these strategies collectively can

Support for increasingly frail elderly populations is vitally needed to successfully maintain independent living.

begin to stabilize and improve the stock. They offer different ways toward the same goal: continued viability of the state-aided units.

Increase Existing Funding

1. **More modernization funding.** Predictable funding in adequate amounts must be available to adequately address the backlog of needs and comprehensively and rationally plan for future capital investments.
2. **Bond cap increase or modernization funding through appropriation.** The present bond cap at DHCD does not allow the department to spend the amount necessary to keep up with the deterioration of the stock. Increasing the cap or appropriating additional money in the Commonwealth's annual budget is necessary to preserve the stock.
3. **Increased operating budgets.** In early 2000 Mass NAHRO completed an operating cost study, which quantified the gap between federal and state operating cost allowances at forty-five of the sixty-six largest authorities at $17.4 million.[66] The federal and state units are comparable in design and age. Housing Authorities run both units with the same staff and costs. With recent increases in state operating subsidy Mass NAHRO believes that much of this gap has been largely eliminated for the present at least. Future increases must keep pace with the needs of the developments to prevent the gap from recurring.[67]
4. **Replacement or capital reserve funding.** One reason that the backlog of capital needs is so substantial is because public housing has never had replacement reserves built into their operating budgets. Rather than planned replacement or improvements, LHAs have had to rely on sporadic, competitive rounds of funding to accomplish even simple, predictable repairs like replacing worn-out roofs. With adequate replacement reserves LHAs can address capital needs as they occur and not rely on occasional bond authorizations and design and construction schedules that take years to complete. Funding a one-time infusion to create a level of replacement reserves retroactively and then funding $300 per unit per year for family units and $250 per year for elderly in the operating budgets each year will dramatically stabilize the inventory.

More Efficient Use of Resources

5. **Predictable capital funding.** The system by which modernization funding is awarded should be improved and made more predictable to allow for more comprehensive planning. DHCD has proposed moving in this direction. It makes sense to parallel the federal program and avoid duplication of effort. An advisory committee can take on the complex task of devising an appropriate formula approach, phased in over time. Once the annual allocation pattern is established, LHAs can borrow against future allocations in order to complete necessary work at one time.

[66] Mass NAHRO letter dated April 3, 2000 to Senator Mark Montigny, Chairman of the Senate Committee on Ways and Means.

[67] HUD has contracted for a study to review the adequacy and distribution of its operating subsidy.

Oran Road Apartments *in Framingham—these small apartments, built for the elderly, have been vacant for a number of years. If funding were available, the buildings and site could be an opportunity for affordable housing development.*

Housing authorities can play a critical role in providing support for children as they move through school and enter the work force.

6. **Devolution of authority to the local level for the modernization process.** The administration of the modernization program should be changed to allow housing authorities, particularly those that already administer federal modernization programs, more autonomy and control over the modernization design and construction. DHCD technical assistance and compliance monitoring to insure quality and cost effectiveness would remain in place. Day-to-day administration of the program, however, should be in the hands of the local authorities.

7. **Options for tenant selection and occupancy.** Change rent regulations to allow authorities to establish ceiling rents and site-based waiting lists.

8. **Funding for management improvements.** Housing authorities need technology and training to function effectively in the world of real estate management. The federal government routinely funds management system improvements as part of their annual capital fund allocation. This helps housing authorities function in today's computer-based business environment. Only limited funding for these activities now exists for LHAs managing state public housing. While DHCD has conducted training and provided some equipment, a gap still exists. Agencies that manage portfolios with a large number of federal units can ease the burden by apply the federal management improvement money across the portfolio, including state developments. Authorities with more balanced portfolios or large numbers of state units have much more limited funding for technology or space upgrades. Funding to allow LHAs to run professional operations is essential, and the added efficiency will save money in the long run.

Community Building

9. **Service funding for elderly developments.** DHCD and the Department of Elder Affairs introduced a demonstration elder services program which has been extremely successful in meeting the needs of frailer elders and in stabilizing elderly buildings. The demonstration has spread to more sites and is a good approach to serving the elderly in public housing and at the same time maintain occupancy. It reduces residents' isolation and provides needed services. The elderly benefit from an enhanced living experience, and management benefits from a happier, healthier population and more demand for the units. This will help to keep more elderly developments financially sound and fully occupied. Funding for these services should be available to expand the program to all elderly developments.

TABLE 16 Investment Strategies over 10 years: Matrix of Need, Cost and Resources

Need	Cost	Resources			
		Bond Bill Funds	Comments	Other Resources	Comments
3 story walkup					
Component replacement	$93,375,000	$85,000,000	Backlog CARS	$8,375,000	Federalization, pb sec 8
Comprehensive modernization	$87,150,000	$62,150,000	Competitive round, formula $	$25,000,000	4% credits, sec 8, federalization
Redevelopment	$124,500,000	$60,000,000	Competitive round, formula $	$64,500,000	Mixed financing, tax credits, federalization
Townhouse					
Component replacement	$240,800,000	$230,800,000	Backlog CARS	$10,000,000	Some leverage, federalization
Comprehensive modernization	$67,080,000	$35,000,000	Competitive round	$32,080,000	4% credits, leveraged finance
Redevelopment	$51,170,000	$35,000,000	Competitive round	$16,170,000	Mixed financing, tax credits
Scattered site					
Component replacement	$54,000,000	$30,000,000	Backlog	$24,000,000	leveraged finance, HOME
Comprehensive modernization	$12,000,000	$7,000,000		$5,000,000	local resources, S8 homeownership
High rise elderly					
Component replacement	$100,000,000	$90,000,000	backlog	$10,000,000	Replacement reserve, surplus, local contribution
Comprehensive modernization	$75,000,000	$50,000,000	$25,000,000		4% credits, assisted living
2–3 story elderly garden apartments					
Component replacement	$215,250,000	$175,000,000	CARS backlog	$40,250,000	Surplus, local contribution
Comprehensive modernization	$270,600,000	$200,000,000	Competitive round	$70,600,000	4% tax credits, reserves
New uses (ass'td living, family)					Sale of surplus land
One story elderly	$83,600,000	$70,000,000		$13,600,000	Replacement reserve, sale of excess land, other
TOTAL	**$1,474,525,000**	**$1,129,950,000**		**$344,575,000**	

10. Service funding for family developments. The success of current initiatives to help bring public housing residents into the economic mainstream should encourage more funding to build on these efforts. Computer literacy classes, job training, after school programs, child care, and more service networks to community have helped public housing residents increase their incomes and stabilize their lives. LHAs have made units available in state developments to house many of these programs. The federal government's drug elimination grants and other service programs have helped housing authorities provide services. But more must be done in the state developments. Programs to support and encourage residents in self-sufficiency should accompany bricks and mortar revitalization. The provision of services to encourage independence has positive financial implications. Increased tenant income means higher cash flow for the project. Reductions in crime and an increase in the number of working families mean lower operating and security costs. And as the sense of community is enhanced, resident pride in the development pays off in better care of common areas and units.

Access to New Resources

Table 16 demonstrates how the use of other resources, including 4% tax credits helps to leverage the Commonwealth's investment. With a price tag of almost $1.5 billion, new partners and new strategies must be sought. The chart begins to map out the types of strategies, by unit type and capital need that will need to be employed to raise the necessary funding.

11. **Mixed finance and access to a range of state resources.** Resources from state and local governments should be available to contribute to the long-term preservation of public housing. Mixed finance projects, particularly utilizing 4% tax credits, can contribute additional equity. The state's investment can leverage these funds and expand the pie of funding available to preserve public housing.

12. **The Affordable Housing Trust Fund (AHTF).** The AHTF and its specific language including public housing offers the opportunity to leverage the flexible AHT funding by using it for guarantees, for bridge financing against future modernization appropriations or for creative demonstration programs undertaken by housing authorities to leverage other funding.

13. **Increases in resident income.** Residents' incomes can help to support higher operating budgets or a limited amount of debt for maintenance and revitalization of developments. As incomes rise through increased wages and more working families, DHCD can freeze the operating subsidy at the higher level and let the developments capture the increase to make positive changes in the development. That, combined with some increase, within public housing eligibility standards, of higher income residents upon turnover, would positively affect the cash flow of some developments.

14. **Federalization.** In the early days of public housing, state public housing units were built with the expectation that the federal government would eventually take over the operations. In the 1980s federalization of units, with state encouragement and resources, was a good tool to stabilize the stock. The possibility of additional federalization of state public housing units was activated by legislation supported by New York and Massachusetts legislators to allow HUD to federalize up to 5,000 Massachusetts units.[68] This discussion with HUD must continue. If a portion of the inventory were to be federalized, the existing resources should remain intact and allow more adequate funding for the balance remaining.

Funds for on-site job training can provide much-needed help for residents looking for work or developing skills for higher-paying jobs.

15. **Limited development program.** A limited, cost-effective development program that would build on and enhance the viability of the existing inventory would present an opportunity to expand affordable housing while tackling some difficult issues of obsolete stock. For example, new development of affordable housing on surplus authority land would allow, in some cases, a reduction in density in some of the larger developments. Conversion of some elderly units to family could be done under this program. In addition, development of land in low-density elderly developments would allow a mixing of families and elderly and

[68] Section 9 (n) of the US Housing Act of 1937 implemented through section 519 of the QHWRA passed in 1998.

create new family units where they are desperately needed. Other ideas will surely surface. While resources are limited, it is worthwhile to consider for the long term some new finance models for public housing.

16. **Project-based Section 8 use in public housing.** In many communities Section 8 utilization rates are low because of rising rents and lack of access to housing by low income voucher holders. With changes in the Section 8 regulations, LHAs can now more freely convert up to 20% of their Section 8 vouchers to project-based subsidy. The use of these Section 8's to supplement operating subsidy in distressed developments or to leverage debt to help improve the projects may be a reasonable use for this resource. At the present time, restrictions on the use of project based subsidy, such as prohibition on use in a 100% low-income development or in certain low-income census tracts, prevent its use in public housing. However, as a longer-range strategy, housing authorities might seek waivers to allow them to proceed with demonstration projects. The use of Section 8 to improve cash flow, to create new units or to leverage debt on existing projects is a concept worth additional exploration.

NEED FOR BEST PRACTICES AND TECHNICAL ASSISTANCE

As housing authorities are called upon to do more with their aging portfolios and provide more assistance to families and elderly residents, it is important to support them with information and technical assistance. Housing authorities that undertake innovative or groundbreaking initiatives in housing services, design, construction, or management efficiency have a story to share. These pioneers help pave the way for other LHAs. As the system changes to meet new demands, the need to shorten the learning curve increases. Dissemination of best practices and incentives for housing authorities to adopt them will help housing authorities to be better stewards of the public housing inventory.

Throughout the Commonwealth, LHAs have demonstrated creativity and persistence in working with their portfolios and in serving the needs of low-income persons in their development and communities. The housing authorities share information and best practices through Mass NAHRO publications and conferences. DHCD with its portfolio-wide view is able to share best practices in design, operations, and resident services with LHAs across the state. Many of the most innovative programs have been developed by DHCD with great success. The successes need to be highlighted and built upon.

To stretch both the imaginations and pocketbooks of LHAs, a more intensive focus on promoting best practices and providing incentives for housing authorities to adopt them is needed. While each community is unique and faces particular local market challenges, the authorities have several things in common:

- The regulatory environment under which the LHAs operate is identical. With the exception of the Cambridge Housing Authority, which has received exemptions from certain regulations under the 5-5-5-demonstration program, all LHAs share the same regulation framework. They are authorized under Chapter 121B and are regulated by DHCD.
- Much of the state-aided stock is very similar in age and design.
- Whether a surplus or deficit authority, LHAs manage on very limited budgets.
- Due to limited budgets, LHAs frequently lag in the latest technology and management systems.
- The population of the family and elderly housing varies by community, but stronger links to services are appropriate for most developments.
- Most of the state's LHAs manage portfolios of fewer than 200 units. Lack of scale and isolation can be a problem.

Because of these similarities an investment in additional education and peer outreach would have broad appeal and replicability. Compiling technical informa-

tion, examining best practices, extracting common themes and articulating an innovation's broader applicability is useful for both the pioneer authority and the recipients of the information.

This report cannot list all the best practices we have observed through our site visits and surveys. However, our interviews and visits have shown us the need to connect the learning and growth of the housing authorities through more coordinated efforts, so that all LHAs have access to the latest information and best thinking about how to deal with the issues in public housing.

We urge a more formal convening of LHAs and production of best-practice documents and issue papers on a regular basis. For example, in 1990, DHCD published *A Redevelopment Handbook* that highlights design solutions to common problems in the family inventory such as shared entries and site upgrades.[69] It also provides guidelines and specific process suggestions for undertaking rehabilitation. An updated handbook detailing cost-effective design approaches to modernization work that is more than simply the updating and replacement of components would be extremely useful to LHAs and provide a basis for future funding decisions.

Some examples of areas where sharing best practices could be beneficial are:

Design and Construction

- **Use of force account crews.** The use of 'force account' or in-house construction teams can reduce time and save money in construction projects. While not appropriate for all housing authorities, in some cases knowledge of the benefits and pitfalls of this method, as well as practical ways to set up a force account and monitor it would be beneficial. Housing authorities in Boston, Worcester, and Lawrence, among others, have had success in doing force account work. There have been failures as well. Evaluating the program and focusing resources on encouraging the best ways to proceed can produce cost savings and efficiency in LHA construction.
- **Energy investment.** More information on the use of Energy Services Companies (ESCOs) and other ways to invest in energy improvements, especially as energy costs rise, may prompt more housing authorities to undertake energy improvements. Case studies and financial analysis of the benefits will help housing authorities to evaluate whether this is a useful investment for them. Springfield, for example, has been innovative in creating energy consortia to reduce costs.
- **Design solutions.** Necessity and limited funds have forced LHAs to be creative in dealing with design limitations of the original stock and sites. LHAs have devised innovative solutions to issues like common entryways, inadequately sized elderly apartments, landscaping, and roadway design. Given the common design problems of many of the family and elderly developments, there is high potential for learning from each other and benefiting from the innovator's experience.

Community Building

- **Resident services.** Family development computer centers, elderly service networks, child care centers on site have all contributed to the quality of life in the developments. Housing authorities have reached out to providers and partners in the community to help their residents access services. Demonstration projects like the Supportive Senior Housing Initiative have improved not only quality of life, but also occupancy rates and cash flow. These successes should be more widely shared so that they can be replicated.
- **Rent escrow programs.** Under a pilot program with DHCD and funding from the legislature, housing authorities have matched tenant contributions for down payments. The Watertown Housing Authority

[69] *Redevelopment Handbook. Procedures and Design Guidelines for Redeveloping Public Housing.* Prepared by Epp Associates, TAMS Consultants, Inc. and Swander Associates in 1990 for the Bureau of Modernization and Redevelopment Executive Office of Communities and Development.

has had particular success in encouraging homeownership for public housing tenants. LHAs need to understand the elements of that success so that they can replicate it. Documenting the success will also help to encourage more funds for similar efforts.

- **Marketing successes in elderly developments.** DHCD is working with a number of housing authorities to understand and solve the problem of declining waiting lists in certain communities for elderly housing. As DHCD gathers experience from LHAs, it should make sure to expand this knowledge to other authorities. Brockton has devised a marketing campaign that, when combined with security improvement, has dramatically expanded waiting lists for the elderly/disabled housing.

Management Improvements

- **Technology advances.** Web sites to allow prospective tenants to view waiting lists, computerized databases for planning and management, and networked connections with decentralized offices, can all contribute to more efficient operations and increase client satisfaction.
- **Regional approaches.** Sharing technical staff and waiting lists, for example, can help break through the isolation and lack of scale that inhibits many housing authorities. While community autonomy concerns have prevented much sharing in the past, creative approaches to regional issues can produce cost savings while respecting individual community concerns and control. DHCD and LHAs should explore an incentive program by which LHAs that form consortia to undertake capital improvement projects will receive funding for shared professional modernization staff. This will provide benefits to both the LHAs and DHCD much of whose staff time is spent assisting LHAs without professional construction staff.

Creating New Affordable Housing Opportunities

- **Partnerships for production.** Each year more housing authorities are being called on by their communities to help them create affordable housing. Without funding for public housing development programs, housing authorities have had to be creative in seeking partners to advance affordable housing in their communities. Using existing tools, like Section 8 and McKinney funds, LHAs have worked in partnership with nonprofits to create supportive housing and new rental opportunities. Showing other authorities the potential while providing technical assistance to help them accomplish these locally based initiatives will help ensure that LHAs are an important component in solving the affordable housing crisis. The Barnstable Housing Authority, among others, has worked closely with Cape Cod developers and the town of Barnstable to increase affordable housing of all types.

In addition to building efficiency and capacity in the LHA world, showcasing best practices demonstrates that there are solutions to some of the problems that housing authorities must deal with. When faced alone, these problems can seem overwhelming. Optimism, energy and support are needed to sustain housing authorities in the tough job of managing public housing.

TECHNICAL ASSISTANCE

DHCD now provides technical assistance in all aspects of project design, construction, oversight, and management. For smaller authorities this technical assistance is crucial in fulfilling their obligations. Deregulation of some of the larger authorities will free DHCD staff to concentrate on providing technical services and assistance to those authorities without in-house capacity.

As authorities undertake new initiatives and expand their missions to serve low-income households, utilizing a variety of tools, additional technical assistance in real estate finance will be needed.

Agencies like Massachusetts Housing Partnership (MHP), Community Economic Development Assistance Corporation (CEDAC), and Local Initiatives Support Corporation (LISC) provide technical assistance to developers of affordable housing to help them manage complex real estate transactions. MHP has worked with a number of suburban and rural housing authorities to help them to create affordable housing. CEDAC has lent predevelopment funds to a subsidiary of the Cambridge Housing Authority for a large assisted living project in which CHA participated. LISC works with a collaborative of community development corporations who are purchasing large 'Infill' units from the Boston Housing Authority to preserve them for affordable homeownership.

Technical assistance through these agencies should be made available to housing authorities that participate in mixed-finance transactions. Funding to hire appropriate legal and technical consultants will help housing authorities compete and allow them to build a team without having to cede control to a for-profit developer.

SPECIFIC ADMINISTRATIVE CHANGE RECOMMENDATIONS

The current process for undertaking state work was described earlier (see chapter 2). We described the much higher level of both predictability and flexibility in the use of modernization funds in the federally aided program. How and where money is spent within a range of eligible activities is determined at the local level. As a result, funds are spent in a cost-effective and planned way and the time between appropriation and completion of a modernization project is much shorter.

Within existing legislation, deregulation of the process is possible in order to move the state-aided modernization program in the direction of the federal program. It would save time, and make more efficient use of the money. It would also decrease the frustrations now experienced by many authorities and their residents in carrying out modernization activities in a predictable way.

Many of the needed administrative changes could be accomplished by eliminating and/or waiving existing regulations. Specific areas to focus on include:

1. The set-aside of a portion of the annual funding cap for formula-based funding. The proportion of funds available for formula distribution would be increased as existing obligations are closed out.
2. The set-aside of a second portion of the funding cap for competitively allocated awards for more comprehensive modernization of a development (not necessarily to the same extent as the federal HOPE VI program). This would be done on an annual or biannual basis, depending on funding availability. Per-unit caps that could be funded from the grant would be established and the use of multiple funding sources encouraged.
3. Development of procedures that eliminate many of the DHCD approvals now required for the scope of modernization work, design, bidding, construction, change orders, and close-out of construction. Where appropriate, a LHA-board-approved certification of work done in compliance with legal and administrative requirements could be used.
4. Development of procedures that simplify the current practices DHCD uses to process payments to designers and contractors.
5. DHCD has demonstrated flexibility in helping LHAs craft solutions to regulatory obstacles when LHAs participate in mixed finance transactions. A "regulatory roadmap" to guide authorities in such customized transactions is necessary. Such a guide would save legal and transaction time and provide new ideas and flexibility as LHAs move into the now uncharted territory of mixed finance.
6. Local options for setting ceiling rents or adopting site-based waiting lists should be implemented so that communities can respond to local conditions. Fair housing concerns must be addressed up front in adopting site-based waiting lists.

LEGISLATIVE AGENDA

The legislative agenda encompasses mainly five elements:

I. Bond Bill Amount for Public Housing Modernization $350,000,000

The bond bill also contains language directing an advisory committee to study a formula approach to modernization funding to be phased in beginning in 2002. A portion of the modernization funds would be targeted to this initiative. After funding existing CARS, the balance of the funds would be awarded to Housing Authorities by a formula to be devised by the study group.

II. Increases to the Operating Subsidy Account

The operating subsidy account should be increased to equal the federal operating subsidy. Housing advocates are pleased that House 1 for FY 2002 proposes an increase in the operating budget. Increasing the budget and allowing operating subsidy to be used for replacement reserves is an important component of the stabilization of the inventory and a move toward responsible asset management.

III. Construction Reform

The substantial construction cost premiums borne by all Massachusetts public agencies in carrying out projects under the current set of public construction regulations also impact LHAs. The premium in public housing work bid under Chapter 149 versus private affordable housing is estimated at between 15 and 20%. LHAs may be even more affected than other agencies because of the small residential scale of the work. With the emphasis on renovation, close coordination of the general contractor and subs is critical. Not only are the costs higher, but the excessive requirements have limited the number of qualified contractors who will bid on public housing authority work.

Public housing is the only affordable housing program in the state burdened by these time-consuming and onerous constraints.

In 1997 Charles Baker, then Secretary of the Executive Office of Administration and Finance, formed a task force to review and streamline the design and construction program. A report was issued in May 1998: Construction Reform Task Force Final Report. The report opens with the following quote:

> Massachusetts has the dubious distinction of having the most regulated public construction contracting process in the country. Massachusetts statutes override the normal rules of law governing private contracting in the area of public bidding and in many important aspects of the performance of public contracts.[70]

Following completion of the report, legislation was filed by the Cellucci-Swift administration seeking to implement many of the recommended changes in the report. Thus far, the construction reform initiative has not been successful.

While this report on public housing is not designed to focus on construction reform, streamlining the construction process is, nevertheless, critical to the effective use of available funds. In the fall of 2000 CHAPA filed housing legislation, *An Act to Preserve State Assisted Public Housing Stock*. In addition to improving the 121B statute, the legislation proposes relief from some of the more onerous construction requirements. These proposals are consistent with the recommendations contained in former Secretary Baker's task force report.

The CHAPA legislation proposes:

- to permit local housing authorities to use the public construction bidding procedures under M.G.L. c.30§39M for contracts up to $100,000, rather than the present $25,000. This would increase the present threshold required for public bidding.
- to raise the threshold for LHAs bidding construction contracts under the burdensome filed sub-bidding requirements under M.G.L. c149§44A from $25,000 to $100,000.

[70]Quote from James J. Myer, Christopher L. Noble, and Penny P. Cobey, *Construction Law 197I.*

- to raise the threshold for jurisdiction of the Designer Selection Board from a fee of $10,000 to $100,000 and the threshold for construction costs from $100,000 to $1,000,000 in order to simplify the process of selection of design professionals on smaller jobs.

IV. Changes to 121B

LHAs are critical to meeting the need for affordable housing in Massachusetts. To continue to be an important housing resource LHAs need changes to the statutes under which they operate they must be given more flexibility to preserve and create affordable housing for low income households. The changes proposed are designed to allow LHAs to participate in partnerships and new financing models and to preserve housing more cost effectively.

When the original statutes were created, the types of legal and financing transactions that are now in the affordable housing tool kit were unknown. Federal law was updated in 1998 to permit housing authorities to leverage additional resources and participate with partners in broader transactions. The technical changes to 121B will put Massachusetts in line with federal law and policy and give LHAs the tools to access additional sources of funding. The modifications proposed closely parallel the new federal QHWRA statutes.

V. Innovation Demonstration Program *$50,000,000*

A five-year, $50,000,000 pilot will provide flexible funding and relief from regulation to allow housing authorities to undertake revitalization of distressed developments, stabilize deteriorating inventory, improve management systems, and explore regional management and development strategies. The pilot is designed to promote creative, replicable solutions that demonstrate new ways to preserve the viability and livability of the Commonwealth's public housing stock for low-income families, the elderly and disabled. It will promote cost-effective planning and construction models through design and bidding reform. The pilot will encourage the leveraging of new sources of investment. Appendix D details principles of the pilot legislation, criteria and sample pilot initiatives.

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APPENDIX A

Two Examples of Comprehensive Modernization

It is helpful to look at a number of recent examples of modernization work to better understand the scope and costs of work involved. Two construction projects from Cambridge are discussed below: Woodrow Wilson Court, a state development first occupied in June, 1949, and John Corcoran Park, a federal development first occupied in 1953.

WOODROW WILSON COURT (200-1)

In 1998, Cambridge received a comprehensive modernization award funded from the 1998 bond bill. One of the very first veteran housing developments, the development consists of sixty eight family apartments in three four-story walk up buildings. It has been well maintained and is fully occupied. Except for the buildings being four stories high, it is similar to many of the three-story concrete and masonry buildings found in other communities. Modernization work over the past ten years has included roof and window replacement, a limited amount of repointing, partial replacement of the electrical and intercom systems, and lead paint abatement. A limited amount of landscaping has been done from time to time. The application to DHCD was to undertake four improvements: replacement of windows and related exterior repair, new kitchens and baths, a new heating system and various building and site security improvements including new interior and exterior doors and frames. The plan did not include any change in unit layout or landscaping, and there will be no change in the number of units when modernization is completed.

Cambridge received an award of $2.8 million to carry out this work. A detailed request for proposals to hire an architect was prepared, followed by intensive negotiations with DHCD to increase the amount of the award. This additional funding was needed to cover an increase in the estimated construction cost, architectural fees, CHA administration and a contingency. As a result of these negotiations, the amount of the award increased by $1.4 million (30%) to $4.2 million. This brings the total development cost to $60,870 per unit. Construction, at the earliest, will start four years after passage of the bond bill.

JOHN CORCORAN PARK (MASS 3-2)

A second Cambridge example is the modernization work recently completed at a federally aided development, John Corcoran Park (Mass 3-2). Corcoran is a 152-unit complex of wood frame buildings, mostly town houses, that opened in 1953. It too was fully occupied at the time it received a modernization award and had been well maintained.[71] Improvements over the previous ten years included an electrical upgrade and new boilers in each building. However, the development was showing its age, and the site, in part because some of it had originally been a peat bog, was badly deteriorated. The internal road system isolated the development from the rest of the community, there was a lack of community and management space, and there were no handicapped-accessible units.

[71] The award was made under the Modernization of Obsolete Projects program (MROP) which is no longer being funded.

TABLE A-1 Construction Costs for Two Cambridge Developments: State and Federal
(Does not include design, relocation, administration and other "soft costs")

	John Corcoran Park MA (3-2) (federal)	Woodrow Wilson Court (200-1) (State)
Number of units	152	69
Initial occupancy	1953	1949
Modernization contract date	January 1995 (project completed)	In design
Total construction and modernization cost	$9.731 million	$3.489 million
Building costs	$6.24 million total $41,847/unit	$50,567/unit
Site costs	$2.33 million total $16,197/unit	$0
Other costs	$1.047 million (community/management building)	$0
Total construction cost per unit	$64,016/unit (completed project)	$50,567/unit (budget)

Source: CHA files

Although modernization costs at townhouse developments are generally lower than for the masonry garden-apartment building type of construction, the work planned for Corcoran was more extensive than would be possible under a state award. It included reroofing, small extensions to the kitchens—dubbed "bump outs"—redesign of a number of units to make them accessible, a modified street plan, construction of a community building, and extensive site work and landscaping. Cost of the project, which was bid in 1995, included $41,000 per unit for the buildings, and an additional $16,000 per unit for site work. The total construction cost, exclusive of design fees and relocation and administrative costs, but including the community/management and maintenance building, totaled $64,000 per unit.

APPENDIX B

Mixed Finance Models

ELDERLY HOUSING

The biggest inventory of elderly units is in low-density, one-and two-story buildings. These do not lend themselves to services as much as elevator buildings with a shared entry. Often the developments have little or no common space, and there are not enough elderly living at one site to attract service providers cost effectively. New models of service provision and a re-thinking of site and unit design are necessary in order to re-tool this large inventory for the needs of elders in the early twenty first century.

As an example, one alternative is to use the resource of the existing housing and land to increase density and add more elderly units in a mixed finance approach to affordable assisted living. The increased units add enough elders to make service provision cost effective. While many sites are already densely developed, better site planning and additions of more stories could make more effective use of the site.

The mixed-finance resources could fund upgrades, like handicapped accessibility and better site design, to make these sites more attractive to elders. The existing land, at little or no cost, is a valuable resource to help make the new assisted-living site feasible. The case study outlined below illustrates the type of transformation that an obsolete elderly site could undergo.

In some cases where the need for elderly housing is declining, other uses such as family housing or housing for the special needs population may be considered.

FAMILY HOUSING

The Chapter 200 family housing will need a significant amount of investment to preserve it into the future. As the report has documented, the magnitude of the need dwarfs the ability of the present system to satisfy it. As LHAs look for solutions to deteriorated family housing, mixed finance presents an attractive option. Additional funds can be added to the public housing funding to expand the types of improvements that can be accomplished. Successful mixed-finance use will require flexibility on the part of the state as well improvements to the Chapter 121B of the General Laws to increase the ability of LHAs to work in the private and quasi-public market. In addition, technical assistance to develop financeable packages will help LHAs to compete effectively for scarce private rental housing resources. DCHD has made progress and has been open to crafting unique arrangements and in developing the “leveraged financing” model. This vision should be supported and enhanced to help LHAs think more broadly about saving their inventories.

The following models illustrate several types of mixed-finance models—one for elderly and one for family developments. With technical assistance and encouragement, many models can be developed based on local need. The pilot program proposed in the body of this report is designed to support creative local approaches such as this.

NEW MODEL: ELDERLY ASSISTED LIVING

Illustrative Model based on Composite Features of 667 Developments

Shady Oaks Village is a 40-unit cottage development on six acres of land with mature trees and gentle slopes. Limited parking is available; the units are not handicapped accessible. The asphalt sidewalks are rutted and broken up. Some nasty falls have occurred. The units are small but efficient. Flowers and decorations adorn many front yards. The development is safe.

Many elderly residents have lived here for over ten years. They are getting older, frailer. They like their neighbors, but the units are shabby, the site worn out. Cold air seeps through the windows. Many units are filled now with younger persons with disabilities. There is little or no waiting list of elderly persons. There are a few vacancies.

When elderly in town need an apartment, they apply to the new federally aided Section 202 high-rise across town. The units are bigger, and there are services. The local elder affairs agency knows there is still a big need for senior housing, but most of the seniors are over 75 years old and need more services. Assisted living has been talked about in the town, but land is scarce and expensive. The head of the housing authority board wonders what to do about Shady Oaks. They don't have the money to fix it up properly, and vacancies are becoming harder and harder to fill.

Can Shady Oaks' problem be turned into the town's opportunity?

The LHA has a nice piece of property. It is near downtown and shops. A number of churches are close by. The property is underutilized, with obsolete units.

The proposal: Use the existing Shady Oaks property and some of the units as the basis of a new assisted-living project. Increase the number of units by adding a mid-rise building with common areas on the site. Redesign and expand the cottages, and connect them to the mid-rise with walkways. Improve the site with additional parking and common gardens.

How would this work financially?

The existing public housing units would still serve very low-income elders with state operating subsidy. The additional units created would serve elders with incomes of up to 60% of median. Tax credits, HIF, Federal Home Loan Bank Board funding would provide the capital. Group Adult Foster Care and SSIG would help pay for services to the elderly.

The housing authority would still control and manage the development. A limited partnership would be set up as the owner to benefit from the tax credits. The housing authority would control the limited partnership. A development consultant would help the authority apply for subsidy and manage the financial packaging of the development. Working with DHCD, imaginative ways can be found to allow the operating subsidy to continue to flow to the development, adding needed subsidy to allow very low income elderly persons to be served.

VETERANS' COURT: CASE STUDY FOR A MIXED-FINANCE MODEL

Illustrative Model based on Composite Features of Chapter 200 Housing

Veterans' Court is a 120-unit townhouse development located in a mid-sized city. The development was constructed in 1952 as duplex townhouses for returning veterans. The units are small with no dining area, even in three and four bedroom units. Though some residents have squeezed washer/dryers into the small kitchen, the space wasn't built to accommodate them. Some of the dryers vent inside the houses, causing moisture buildup. High rates of asthma are reported in the development.

The site plan is a series of loops and circles with cars parked haphazardly throughout. Asphalt predominates, with little green space. Walkways are deteriorated. Homes don't front on the street, and residents mostly access their doors through a maze of drying yards that are infrequently used.

Some older residents have been here since their families were young. But most of the families have come in the last decade. Turnover is high. Most applicants prefer to wait for openings in the federal development where the units are in better shape. The project has a stigma of being housing of last resort.

In the last decade, work has been completed on the electrical system and new windows have been added. New roofs have improved the leak situation, although the siding is deteriorating and is now the major cause of leaks. The LHA has received a grant for kitchen and bath planning.

The city is under pressure to "do something." The LHA, working with the local community development department, has come up with a plan. They want to preserve low income housing and make improvements that will last. DHCD's leveraged financing plan has some appeal. They think that with job training money and computer centers they can raise the incomes of current residents by 5–10%. The average rent is $260. But to improve the development enough to keep and attract residents in the 40–50% of median range, they know they need to do more than the DHCD modernization grant plus the leveraged finance model can afford.

The Plan: Architects have crafted a redevelopment plan that addresses the backlog of systems work, makes modest internal changes to improve apartment layouts and maximize space and replacing the siding. Fifty-year-old kitchens and baths will be upgraded. The entryways are improved with porches and entry roof peaks so that they are more like those in the surrounding neighborhood. The site is upgraded with play space and landscaping and clear parking areas. Attention is paid to security and defensible space. The cost is about $100,000 per unit. This is comprehensive modernization.

How to Pay for It: Mixed Finance

DHCD will fund a grant for $65,000 per unit. Using the increased income from the residents, the LHA hopes to raise an additional $3,000 per unit. The city is ready to commit some CDBG funds to help fill the gap. The balance of the gap can be filled through 4% credits. Approximately $30,000 in LIHTC equity can be raised for every $100,000 of cost. The 4% credit model builds on a model pioneered for HUD/MHFA demo-dispo. An MHFA tax-exempt construction loan, guaranteed by the DHCD grant, would allow the development to access the credits. The units would stay affordable for public-housing-eligible tenants. The LHA would set up a subsidiary to manage the general partnership that takes advantage of the tax credits.

APPENDIX C

HUD FY 2001 Area Median Incomes (AMI) for Massachusetts Metropolitan Statisical Areas Effective April 6, 2001 Prepared by the Massachusetts Law Reform Institute*

METRO AREA	100% of AMI (family of 4)	30% of AMI ("extremely low-income")		50% of AMI ("very low-income")		80% of AMI ("low-income")	
Boston	$70,000	*4*	21,000	*4*	35,000	*4*	52,500
		3	18,900	*3*	31,500	*3*	47,250
		2	16,800	*2*	28,000	*2*	42,000
		1	14,700	*1*	24,500	*1*	36,750
Brockton	$61,300	*4*	18,400	*4*	30,650	*4*	49,050
		3	16,550	*3*	27,600	*3*	44,150
		2	14,700	*2*	24,500	*2*	39,250
		1	12,850	*1*	21,450	*1*	34,350
Lowell	$70,200	*4*	21,050	*4*	35,100	*4*	52,500
		3	18,950	*3*	31,600	*3*	47,250
		2	16,850	*2*	28,100	*2*	42,000
		1	14,750	*1*	24,550	*1*	36,750
Lawrence	$64,100	*4*	19,250	*4*	32,050	*4*	51,300
		3	17,300	*3*	28,850	*3*	46,150
		2	15,400	*2*	25,650	*2*	41,000
		1	13,450	*1*	22,450	*1*	35,900
Fitchburg	$57,200	*4*	17,150	*4*	28,600	*4*	45,750
		3	15,450	*3*	25,740	*3*	41,200
		2	13,750	*2*	22,900	*2*	36,600
		1	12,000	*1*	20,000	*1*	32,050
New Bedford	$46,300	*4*	15,150	*4*	25,250	*4*	40,400
		3	13,650	*3*	22,750	*3*	36,350
		2	12,100	*2*	20,200	*2*	32,300
		1	10,600	*1*	17,700	*1*	28,300
Fall River	$52,800	*4*	16,450	*4*	27,400	*4*	43,850
		3	14,800	*3*	24,650	*3*	39,450
		2	13,150	*2*	21,900	*2*	35,050
		1	11,500	*1*	19,200	*1*	30,700
Pittsfield	$49,600	*4*	15,150	*4*	25,250	*4*	40,400
		3	13,650	*3*	22,750	*3*	36,350
		2	12,100	*2*	20,200	*2*	32,300
		1	10,600	*1*	17,700	*1*	28,300
Springfield	$49,700	*4*	15,150	*4*	25,250	*4*	40,400
		3	13,650	*3*	22,750	*3*	36,350
		2	12,100	*2*	20,200	*2*	32,300
		1	10,600	*1*	17,700	*1*	28,300
Worcester	$57,000	*4*	17,100	*4*	28,500	*4*	45,600
		3	15,400	*3*	25,650	*3*	41,050
		2	13,700	*2*	22,800	*2*	36,500
		1	11,950	*1*	19,950	*1*	31,900
Barnstable-Yarmouth	$52,000	*4*	15,600	*4*	26,000	*4*	41,600
		3	14,050	*3*	23,400	*3*	37,450
		2	12,500	*2*	20,800	*2*	33,300
		1	10,900	*1*	18,200	*1*	29,100

*This is a partial and not official summary. For communities within each MSA, family sizes above 4, and data for the non-metropolitan areas, go to http://www.huduser.org/datasets/il/fmr01/index.html

APPENDIX D

Pilot Legislation Fact Sheet

A 5-year $50 million Pilot/Demonstration Program for revitalization of state-aided family and elderly/disabled public housing

The Commonwealth of Massachusetts has 50,000 units of state-aided public housing. This stock has provided housing for hundreds of thousands of Massachusetts veterans, elderly, disabled and low income persons since the program was created in 1948. Funding for repairs and modernization has not kept pace with the aging stock and some units are in danger of being lost.

Massachusetts needs to protect its investment in these units. This pilot funding program will provide incentives to communities to protect and revitalize this valuable housing resource. We need to invest targeted resources creatively, in locally generated solutions, to keep this housing as a resource for future generations of Massachusetts's low income families, elderly and disabled persons.

THE CONCEPT

The pilot is designed to promote creative, replicable solutions that demonstrate new ways to preserve the viability and livability of the Commonwealth's public housing stock for low-income families, the elderly and disabled. It will promote cost effective planning and construction models through design and bidding reform. The pilot will encourage the leveraging of new sources of investment.

- Locally based solutions will demonstrate a range of different approaches that fit the variety of housing challenges communities face. One approach doesn't fit all. Local communities are most able to craft appropriate solutions.
- Flexible funding is needed so that Housing Authorities can invest in their state-aided housing in the most appropriate and cost effective way. Through capital improvements, management improvements and services, communities selected for the pilot will have the opportunity to more comprehensively address the declining quality of their state-aided public housing.
- The demonstration will accommodate a number of different financing and construction models: mixed finance, leveraged finance, comprehensive modernization, and service-enhanced elderly.
- Mixed finance investment strategies will produce better quality housing that can attract and keep households within the full range of public housing eligible incomes.
- Relief from burdensome construction regulations will improve efficiency, reduce project completion time and make state dollars go farther.
- Smaller housing authorities that have difficulty managing efficiently or have limited technical experience will have an opportunity to work together or with other partners in a regional cooperative approach.
- With programs designed based on local need and conditions, the demonstration will increase local investment and improve local development skills.

PRINCIPLES

- Housing Authorities retain long-term control
- The pilots will serve existing residents.
- The demonstration projects will enhance the quality of life for existing residents through better housing and access to services.
- The demonstration will promote replicable solutions.

CRITERIA FOR PARTICIPATION

- Developments proposed for the pilot should have capital repair needs or market problems that threaten their long-term viability.
- Proposals should demonstrate how state investment would insure the long-term viability of the project as a resource for public housing residents.
- The authority must demonstrate the ability, working with DHCD technical staff, to manage the revitalization process.
- Participants will be chosen on a competitive basis.

FUNDING

- $ 50 million over 5 years for the initial demonstration sites. The funding can leverage additional resources to make it go further.
- Grants for revitalization may include innovative management improvements and a service coordinator
- Access to CEDAC and other sources of technical assistance will enable housing authorities to create mixed finance projects.

LEGISLATIVE/REGULATORY RELIEF

- Relief from costly design and bidding requirements will improve cost effectiveness. DHCD oversight will insure quality construction.
- Housing Authorities may receive regulatory relief from DHCD to overcome obstacles to development. Such relief may include permission for ceiling rents, site-based waiting lists, and use of additional tenant income for property improvements.

TYPES OF DEMONSTRATIONS

- Communities struggling with aging elderly housing may, for example, use the money to upgrade units, add elevators, undertake breakthroughs to create larger units or add common areas for services and dining.
- Family development might make site or building improvements to improve security, livability and community appeal.
- Low density developments in suburban communities may add additional moderate income units by leveraging other resources while upgrading and preserving the public housing units. The mix of incomes will help to preserve and stabilize the public housing stock while increasing overall housing supply.
- Kitchens and baths that in many developments are over 40 years old may be re-designed and improved to contemporary standards with housing authority crews. Relief from restrictive bidding requirements will demonstrate the cost effectiveness of construction reform.

PROGRAM MONITORING AND EVALUATION

- Establishment of an advisory committee.
- Program oversight, monitoring and technical assistance by DHCD
- Evaluation of the demonstration projects by an independent agency to help the Commonwealth choose models for future programs.
- Annual reports to the legislature filed by DHCD as to the progress and results of the demonstration.

PUBLICATION CREDITS

Cover photos (people on top):	© Greig Cranna
Cover photo (townhouse, Reed Village, Springfield):	John Stainton
Illutration on page 10:	Courtesy of Cambridge Housing Authority
Photos on pages 24, 27, 28, and 29:	John Stainton
Photos on pages 47, 48, 59, 51:	Winslow Martin for the Cambridge Housing Authority
Book and cover design:	Naomi Mahoney / Studio N
Printing:	Colonial Printing, Malden, Massachusetts

Text and cover printed on Fox River Coronado, a 50% recycled paper containing at least 30% post-consumer waste.

The Commonwealth of Massachusetts has a valuable resource in its state-aided inventory of 50,000 public housing units located in 246 communities throughout Massachusetts. The developments offer a range of housing choices to serve low-income families, the elderly and people with disabilities. These developments have provided safe, decent and affordable housing. However, as with any aging resource, thoughtful stewardship and timely investment in its care are necessary so that it can serve future generations.

Protecting the Commonwealth's Investment: Securing the Future of State-Aided Public Housing assesses the Commonwealth's portfolio of public housing and proposes strategies to aid in its preservation. The report will be invaluable for policymakers, legislators, and public housing advocates in their efforts to preserve and modernize this vital resource.

C H A P A

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