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# HOUSING A CHANGING CITY

## BOSTON 2030



CHAPTER 8

2014



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## RESOURCE DEVELOPMENT

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To ensure the prosperity of the city reaches every corner of Boston, the City must be a responsible steward of public funds, carefully investing these valuable resources for the greatest benefit. The City is lucky to have strong partners who generously fund housing production and programs in Boston.

Although the City has these strong partners, funding for community development and affordable housing is decreasing. It is more important than ever to control costs while identifying new sources to support Boston's growing demand for housing.

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Affordable housing in Boston is funded using both public and private resources. Boston is fortunate to have strong working relationships with many public and quasi-public funders including the US Department of Housing and Urban Development (HUD), the State Department of Housing and Community Development (DHCD), MassHousing, MassDevelopment, Mass Housing Partnership (MHP),

the Massachusetts Housing Investment Corporation (MHIC), Metropolitan Boston Housing Partnership (MBHP), and the Community Economic Development Assistance Corporation (CEDAC). In addition, the City benefits from a network of private banks, non-profit organizations, and philanthropic lenders that are committed to the development of affordable and mixed income housing.



In order to determine new financial models and resources for housing production and programs, it is important to understand the current sources of funding available to the City.

The following is an outline of the various resources the City currently uses to build and preserve affordable housing.

## FEDERAL FUNDING RESOURCES

### Community Development Block Grant (CDBG)

The City receives an annual allocation of funds directly from HUD, based on a national formula. This program provides funds to the City for a range of neighborhood development activities including but not limited to neighborhood business development, homeowner assistance, homebuyer assistance, housing development, Fair Housing Initiatives, Metrolist and Affirmative Marketing Activities, job training programs, and community gardens. Forty-three percent of Boston's CDBG grant goes to housing-related activities.

### HOME Partnership Program (HOME)

Directly allocated to the City by HUD, this program provides funds to the City to undertake affordable housing development and preservation. HOME funds are also allocated to the State, and eligible Boston developments may apply to the State for matching funds.

### Lead Hazard Control (LHC)

The City receives Lead Hazard Control Grants from HUD through a competitive process. These funds are used to remove lead-based paint, primarily in homes with children under the age of six.

### Low Income Housing Tax Credits (LIHTC)

This is the single largest Federal resource for affordable housing. Managed by the State, Federal 9% and 4% LIHTC allocations are awarded to developments through competitive applications. The tax credits are sold to investors and the funds raised are used to pay for the cost of building and preserving affordable housing.

### HUD Section 202 Funding

Historically, this program provided both capital funds as well as on-going operating support for affordable elderly housing developments. In FY10, HUD made significant cuts and changes to the program, eliminating the capital funding. Currently, the program only provides operating support for elderly developments, and is provided to the State for distribution.

### Federal Competitive Programs

The federal government offers special purpose grants through national competitions. Recently, Boston successfully secured and utilized Neighborhood Stabilization Program funds, Choice Neighborhoods Implementation and Planning Grant funds, and Community Challenge Planning Grant funds for use in its affordable housing and community development efforts.

## STATE RESOURCES

The Commonwealth of Massachusetts has always been a critical partner with the City in the development and preservation of affordable housing. The City does not directly receive State funds; rather, affordable housing developers pursue State funding through competitive funding rounds.

### Housing Bond Bill Funds

The State funds much of its affordable housing activities through multi-billion dollar Housing Bond Bills. The Bond Bill provides approximately \$100 million annually for private affordable housing throughout the Commonwealth. These resources are allocated to a number of State programs that provide funding for new housing production, rental preservation, supportive housing, and accessibility modifications.

### State Tax Credits

In addition to the Bond Bills, the State legislature approves state tax credits that are used to support

affordable housing and community development activities. Like the federal LIHTC program, the state tax credits are awarded to eligible developments on a competitive basis, and the credits are sold to raise private capital used in housing development.

### State Real Estate

Massachusetts' State agencies, such as the Department of Transportation (DOT) and the Department of Capital Assets Management (DCAM), are significant owners of real estate in Boston. When State properties are no longer needed, they can become valuable sites for redevelopment.

### Other State Resources

Critical financing and subsidies for housing developments are provided by MassHousing, MassDevelopment, MHP, MBHP, CEDAC, and others. Additionally, State programs such as MassWorks and Brownfield Funding can be critical to ensuring the feasibility of an affordable housing development.





## CITY RESOURCES

### Linkage Program

Created in 1983 through a State enabling act, the Linkage Program charges a fee on all commercial and institutional development projects larger than 100,000 square feet. The current housing rate of \$8.34 per square foot was established late in 2013. Uses of Linkage housing funds are tightly restricted by the Linkage enabling law. These funds can only be used for low- and moderate-income housing production and preservation.

### Inclusionary Development Program (IDP)

The City's IDP allows private developers of market-rate housing to make "cash in lieu of" or cash-out payments to the City if the required IDP affordable units are not located on-site at the market-rate housing. The arrangement must be agreed to in advance by the BRA, and the funds generated are used to support the creation of affordable units in other developments throughout Boston.

### City Appropriations

Beginning in 2001, the City dedicated funds it received from the sale of surplus property as a resource for the development of affordable housing. More recently, the City has also provided a direct annual allocation from the General Fund to further support the creation and preservation of affordable housing.

### City Real Estate

The Department of Neighborhood Development (DND) and the Boston Redevelopment Authority (BRA) have real estate holdings that are often used to support the creation of affordable housing. In some cases, the real estate is sold for a nominal price to affordable housing developers to provide a substantial real estate subsidy for these developments.

## RESOURCE TRENDS

In recent years, there has been a reduction of Federal resources for housing programs. The funding for public and private affordable housing development has been especially impacted. The City has been able to identify and make available funding to partially offset these losses.

### City-Controlled Resources

Boston's allocations of CDBG and HOME funds have been subject to substantial cuts over the past ten years. The CDBG program cuts have been made slowly but steadily, with the total allocation reduced by more than 26 percent over the last 10 years. The HOME funding cuts are more recent and substantial in nature; since 2012, Boston's allocation of HOME funds has been reduced by more than 47 percent. It is expected that further cuts to these two critical resources will be proposed.

Revenue from the Linkage program has been relatively stable, relying on commercial and institutional building development. The City anticipates that this resource will remain relatively level.

The greatest increase to Boston's revenue sources has been a 95 percent increase of IDP Funds. No assumption has been made that IDP Funds will continue to increase at this rate. The housing market is cyclical in nature, and it is anticipated that IDP revenue will show variation throughout the term of this housing plan (See Table 34).

### Externally-Controlled Resources

#### State Subsidy Programs

Over the last five years, Boston developments have received consistent support from the State subsidy funding programs, averaging almost \$35 million per

year (Table 35, page 108). With a pipeline of strong affordable housing developments in Boston, we believe that the State will make every effort to sustain that level of support.

#### Federal Tax Credits

LIHTCs are a critical resource for the production and preservation of affordable housing. Currently, an allocation of 9% LIHTCs can raise as much as \$160,000 per unit of funds to pay for eligible costs. These 9% Credits are extremely attractive to affordable housing developers, but the amount of 9% LIHTC allocated to the State in any given year is limited, making competition fierce. Boston currently has a multi-year queue of affordable housing developments seeking an award of this valuable federal resource from the state. Somewhat less constrained, 4% LIHTC is a function of the State's private bond cap authority. Currently,

TABLE 34: 10 Year History of Boston's Housing Fund Sources

REVENUE SOURCE	2004-2007	2008-2011	2012-Q2/14	% Change 2004-2014
Average Annual CDBG Appropriation <sup>1</sup>	\$22,173,549	\$19,583,061	\$16,383,737	-26.1%
Average Annual HOME Appropriation	\$8,267,209	\$8,069,049	\$4,344,446	-47.4%
Average Annual Linkage Collection	\$6,429,130	\$6,431,029	\$6,526,585	1.5%
Average Annual City Budget Appropriation	\$3,707,750	\$5,162,000	\$5,250,000	41.5%
Average Annual IDP Cash-Outs Approved <sup>2</sup>	\$5,190,445	\$5,455,338	\$10,153,505	95.6%

<sup>1</sup>Represents total City allocation of CDBG funding, of which an average of 43% goes to housing activities

<sup>2</sup>Cash Out Agreements take effect at building permit issuance. Funds are collected over a period of up to seven years.



an allocation of 4% LIHTC from MassHousing or MassDevelopment can raise as much as \$100,000 per unit of funding. Although less lucrative than the 9% LIHTC program, the allocation of 4% LIHTC can be obtained more quickly, shortening the development timeline and providing potential cost savings. The availability of 4% LIHTC is expected to remain stable, and Boston is working on developing financial models that will result in more affordable housing developments accessing this resource.

#### **Other Federal Programs**

Although trends indicate that fewer federal resources will be made available for affordable housing

and community development, Boston continually monitors the availability of competitive grants from HUD. In recent years, DND successfully applied for and received a Choice Neighborhood Implementation Grant of \$20.5 million to support affordable housing and community improvements to the Quincy Street Corridor. The BHA has received a Choice Neighborhood Planning Grant for the Whittier Street Development and expects to submit an application for an Implementation Grant soon.

TABLE 35: **State Subsidy Funds for Affordable Housing in Boston 2009-2013<sup>1</sup>**

Year	Funding
2009	\$24,299,552
2010	\$44,619,638
2011	\$35,336,542
2012	\$31,799,755
2013	\$38,410,463
<b>Average Annual</b>	<b>\$34,893,190</b>

<sup>1</sup> This accounting does not include tax credits

## Resource Development: Key Issues

Additional resources are required to meet Boston’s growing need for affordable housing. To meet the goals of this housing plan, the City will need to secure a housing budget of \$51 million, an increase of \$20 million annually. The City must also continue to successfully leverage both private and public resources to support the increased production this plan envisions (Table 36).

### POTENTIAL INCREASES: CITY SOURCES

#### Inclusionary Development Program Fund

In July 2014, the management of the IDP Fund was transferred from the BRA to DND. There remains \$57.2 million in obligations to the City, with \$54.7 million of those obligations not yet due or collected. This

\$57.2 million has yet to be obligated to any affordable housing projects (Tables 37 and 38, page 110). These uncommitted obligations have been factored into Boston’s \$31 million current annual revenue projections.

Additional IDP resources will come from new market-rate developments that are approved to make cash-out payments, rather than build affordable units on site. In addition, Boston will consider changes, such as increasing the amount of the cash-out floor price to be closer to the actual cost of producing an affordable unit, which would increase the amount that would be paid into the IDP Fund. This one change could significantly increase the funding available for affordable housing.

TABLE 36: **Estimated Annual City Funding Requirements to Deliver Boston 2030 Goals**

Housing Program	Current City Funding	Projected Need
Senior Homeowner Assistance	\$2,100,000	\$3,100,000
Non-Senior Home Repairs	\$2,600,000	\$2,500,000
Homebuyer Assistance	\$1,100,000	\$2,100,000
Affordable Homeownership Production	N/A	\$1,600,000
Low Income Family Rental	\$22,200,000	\$32,000,000
New Low Income Elderly	N/A	\$7,100,000
Low Income Rental Preservation	\$3,000,000	\$3,000,000
<b>TOTAL</b>	<b>\$31,000,000</b>	<b>\$51,400,000</b>



The City of Boston also believes it is important to simplify and standardize the process for cash-out agreements, assuring that all cash-out requests are evaluated consistently.

**Linkage Program**

The governing legislation of the Linkage Program allows the City to make adjustments for inflation every three years. In order to prevent the future loss of Linkage income when inflation adjustments are not implemented in a timely manner, the City intends to make the inflationary adjustment automatic. The

adjustment would take effect no more than 30 days after the publication of the inflation index on the 3-year anniversary of the last adjustment.

Making other significant changes to the Linkage Program will require action through the State Legislature. While the City is not opposed to making changes, such as lowering the square footage threshold below the current 100,000 square foot level, such changes must be more fully discussed with Boston’s State, nonprofit and commercial development partners.

TABLE 37: **Cumulative IDP Fund Status as of July 1, 2014**

Transaction	Amount
Value of All Executed Agreements Since 2000	\$101,346,599
+ Value of Pending Agreements Awaiting Execution	\$12,820,086
= Total Estimated IDP Revenues Paid or Owed	\$113,866,685
- IDP Funds Expended/Awarded As Of 7/1/14	\$56,653,882
= <b>Uncommitted Balance As Of 7/1/14</b>	<b>\$57,212,803</b>

TABLE 38: **Cash Status of IDP Fund as of July 1, 2014**

Transaction	Amount
Uncommitted Balance As Of 7/1/2014	\$57,212,803
- Revenue Remaining To Be Collected	\$54,682,092
= Uncommitted Cash As Of 7/1/2014	\$2,530,711

**Community Preservation Act (CPA)**

The CPA allows communities to create a local Community Preservation Fund for open space, historic preservation, and affordable housing. Community preservation monies are raised locally through a surcharge of the tax levy against real property of up to three percent. Municipalities must adopt CPA by ballot referendum. Currently, 155 cities and towns across the Commonwealth have approved CPA.

In addition to funds raised by the surcharge, the CPA statute created a statewide Community Preservation Trust Fund. This fund provides matching distributions of funds each year to communities that have adopted CPA. The matching funds come from a surcharge on transaction fees at the Registry of Deeds and special appropriations by the State legislature.

The current statute allows for communities to exempt the first \$100,000 of value for all properties and also allows the exemption of 100 percent of the value for

low-income and elderly homeowners. If Boston were to adopt a surcharge of one percent, and provide these exemptions, funds from CPA would provide a significant revenue stream to support affordable housing, historic preservation and open space initiatives (Table 39).

In addition to the local funds that CPA would generate, Boston would receive matching funds from the State’s Preservation Trust Fund. Table 40 (page 112) illustrates the amount of State funds that Boston could receive based on the current 52.2 percent match rate. Communities can decide on the distribution of funds across the three areas covered under the CPA, as long as each area - open space, historic preservation and affordable housing - receives at least 10 percent of the total available.

Even if only half the CPA revenues were dedicated to affordable housing, this new resource would provide approximately \$10 million of the estimated \$20 million in new funding required by this plan. The City should

**TABLE 39: Potential CPA Revenue with 1% Surcharge Exempting First \$100,000 of Value on all Properties and 100% Exemption for Low-Income & Elderly Homeowners**

	Residential	Commercial	Industrial	Yearly Total
Total tax levy	\$678,415,075	\$923,921,484	\$22,061,837	\$1,624,398,396
CPA Revenue: 1% surcharge Before Exemptions	\$6,784,151	\$9,239,215	\$220,618	\$16,243,984
CPA Revenue: 1% surcharge With Exemptions	\$3,946,994	\$8,989,338	\$200,601	\$13,136,933



consider supporting the placement of a CPA measure on the ballot, provided the affordable housing, open space, and historic preservation advocacy communities are able to organize a coalition to facilitate passage of this measure.

**City Budget Appropriation**

Working with the budget office, the City will also seek to establish a dedicated line item in the annual budget to support senior housing programs. This new funding will support senior homeowner programs, including home repair, energy conservation, and foreclosure prevention programs. In addition, a part of these additional appropriations will support new rental housing production for seniors, preservation of at-risk existing senior housing, and services to help the most cost-burdened seniors achieve access to existing affordable housing. City resources dedicated for senior housing programs will be dependent upon other budget needs, and reviewed yearly.

In addition to creating its own line item for senior housing, Boston will recommend that the incoming State administration make a similar commitment to its seniors by adding a line item in the State budget for senior housing.

**POTENTIAL INCREASES: EXTERNAL RESOURCES**

Boston will need to continually look for new resources to support the housing goals established in this plan. This effort will include finding ways to leverage increased private funding, while looking for new philanthropic partners.

It will also include finding ways to better access existing programs such as the State Tax Credit Program for Gateway Cities, the Federal 811 Housing for Persons with Disabilities Program, and MBHP’s Home Modification Loan Program (also used to create housing opportunities for owners and tenants with disabilities). In addition, the City will work with the State to reinvigorate programs such as the Priority Development Fund and Transit-Oriented Development Housing grants to support additional housing development in Boston.

TABLE 40: **Projected Housing Funds from CPA**

Surcharge Income	\$13,136,933
State Matching Funds (52.2%)	\$6,857,479
Total CPA Income	\$19,994,412
<b>If 50% were allocated to Affordable Housing</b>	<b>\$9,997,206</b>

## Resource Development: Goals

1. Increase the amount of City-controlled funds available for affordable housing by approximately \$20 million per year, from \$31 million to \$51 million, in order to meet the increased production goals outlined in this plan
2. Work to maintain funding levels and support existing programs, such as CDBG, HOME and LIHTC, Federal Leased Housing, Public Housing Capital and Operating Programs. Work to counter recent national trends that would further reduce the availability of these valuable resources
3. Continually evaluate the resources needed to achieve the production goals of this housing plan, recognizing that costs and revenues will need to be continually adjusted

An important function of the Housing Task Force will be to oversee progress on this housing plan, including the budget required to meet stated goals. The City will work with the Housing Task Force to evaluate the budget and make changes as required.

The City must continue to advocate for continued Federal funding. The success of this housing plan depends on continuing to receive critical funding for the creation and preservation of both public and private affordable housing.





## Resource Development: Actions

### 1. Review the Inclusionary Development Program

Review the Inclusionary Development Cash-out Policy to determine the feasibility of a higher cash-out floor price, coupled with a simpler, less discretionary policy for approving cash-out requests.

### 2. Explore creating a line item in the City and State budgets for senior housing programs

To respond to the increased senior population, request a Senior Housing Line Item in the City and State budget to support low-income senior housing production and senior homeowner and renter stabilization and support services.

### 3. Adjust Linkage regulations to increase revenue

Implement automatic Linkage fee adjustments. Work with the commercial development community and State legislative leadership to consider lowering the 100,000 SF exemptions, in addition to other responsible changes that would result in increased revenue.

### 4. Evaluate the Community Preservation Act

Evaluate the impacts and benefits of CPA. Consider supporting a broad coalition to facilitate the passage of the measure. If passed, work with the State to maximize the match funding available.

### 5. Identify new resources and maintain existing funding

Continue to explore all Federal, State and private resources that could help to further the goals of this plan. Work with housing advocates and other State agencies to support maintaining or increasing existing funding levels. Examine new and reinvigorate existing programs to support growth.

### 6. Maintain and sharpen Boston's competitive edge

Continue to work with housing developers to present the most competitive, cost-effective affordable housing applications to DHCD and other State funders. This includes applying new building efficiencies, designs, and technologies to reduce construction costs where possible.

### 7. Work with State and private partners to expand funding options for new affordable housing

Working closely with DHCD and public/private lending partners, the City will develop alternate funding paths for new affordable housing production that expands both State and City capacity.