



CITYHOME.....

A New Housing Program for the City of Cambridge

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***Cambridge City Council
Housing and Community Development Committee***

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CITYHOME ... A New Housing Plan for the City of Cambridge

Overview

The Housing and Community Development Committee of the Cambridge City Council has been meeting since January to review existing housing programs and to determine whether the City can undertake additional initiatives in view of the loss of rent control. The Committee reviewed not only the loss of 15,700 controlled units but also the alarming prospect of greatly diminished federal funding for housing. A restructured federal Department of Housing and Urban Development (HUD) recommended by President Clinton may end project-based housing assistance, threatening 4,700 existing public housing and assisted units. Also, a new Congressional initiative threatens to curtail immediately a program to preserve the affordability of 1,600 Cambridge expiring use units. Finally, current funding levels for HOME and CDBG, two major federal programs which Cambridge has used to renovate and build affordable housing, are slated to be cut in the current year and in FY96 by an as yet undetermined amount.

The enormity of the impact of all these decisions on those living in Cambridge cannot be overstated. The loss of rent control has already resulted in dislocation and removal. If other federal initiatives become reality, residents living in over half of the 39,000 housing units in the City are threatened.

There is no way that increasing the local commitment to maintaining this City's diversity through affordable housing alone can deal with the growing magnitude of these circumstances. A new program devised and funded locally through the property tax cannot compensate for or replace rent control or the loss of federal funding. Other reasons that local resources alone will not suffice are the aging nature of the housing stock and the very high cost of housing in Cambridge.

The need for a continued strong federal and state commitment to affordable housing is critical to maintaining the diversity of this city. Those concerned with the future of Cambridge as a livable community must maintain a relentless advocacy at the state and federal levels because diversity cannot be maintained without a partnership among all levels of government.

Discussions in Committee, however, with City Manager Robert Healy and with other housing advocates, including members of the Cambridge Affordable Housing Trust, have led us to believe that the City's role in helping those who are threatened with displacement can be expanded. In addition, such a City program constitutes the beginning of a consistent and long-range housing policy, one that the City can maintain even as other levels of government equivocate. While rent control has dominated the discussion of housing policy, few have noticed that the Cambridge Affordable Housing Trust has been very effective in leveraging a number of affordable rental and home ownership units over the last seven years. This

Committee recommends a reorganization and expansion of that program.

The Committee recommends a balanced program that helps tenants become first-time homebuyers by providing counseling, education and training to existing tenants; by establishing a Soft Second Mortgage Program in cooperation with Cambridge banks; by establishing City, MHFA and Fannie Mae mortgage pools; and by providing assistance with rehab and closing costs. It also recommends that City money be used to help our established nonprofit housing agencies purchase formerly controlled and distressed buildings to preserve affordable rentals. The City should also establish a loan program to assist landlords in making renovations to buildings they wish to keep in the rental market in return for keeping some units affordable.

The Committee also recommends that the City explore a variety of regulatory options to preserve affordable housing such as inclusionary zoning, linkage and the real estate transfer tax, which would need legislative approval.

The Committee recommends further that the City should aggressively explore the negotiation of set asides with large property owners. The largest owner of rent-controlled units in the City, Harvard University, has just indicated a willingness to explore a set aside of a portion of its portfolio for affordable housing.

The Committee recommends that this program be operated through the existing Cambridge Affordable Housing Trust which should be expanded by one representative of the Cambridge banking community. The Committee further recommends that the Trust, chaired by the City Manager, be given maximum flexibility to implement these objectives as opportunities arise. The Committee recommends that the Trust report quarterly to the City Council through the Housing and Community Development Committee concerning progress in reaching its objectives. The Committee strongly suggests further that the Community Development Department ensure by thorough and direct communication that all housing options and programs are properly advertised throughout Cambridge and made available equally to all residents.

The Committee has discussed with the City Manager how much new City money could be made available to fund this program and how it should be raised. The Committee concurs with the City Manager's recommendation that the City not issue bonds for this purpose due to the City's already heavy capital investment program.

The City Manager in his budget message will recommend a new City commitment of \$20 million dollars over the next ten years -- \$2 million in annual contributions -- to maintain, expand and stimulate affordable housing. The committee recommends approval of the City Manager's commitment. While it is his intention to maintain this policy for the full period, obviously the City Manager and the City Council must review the program's progress

annually at budget time. For FY96, \$700,000 of this recommendation will come from the current rent control budget which is recommended to be halved as the program is phased out. The remaining \$1.3 million will be recommended to be allocated from free cash. For FY97 and subsequent years, it is expected that the elimination of the rent control office will result in savings of \$1.3 million and the loss of rent control will result in about \$5 million in increased revenue from property taxes. The continuation of an annual \$2 million affordable housing program would be taken from that amount, leaving a surplus to be applied toward the tax rate or to be used elsewhere in the budget. If the annual \$2 million were instead to be applied to the residential tax rate, an average homeowner could save \$.09 per thousand of valuation, or \$18 for a unit valued at \$200,000.

The exact number of residents that will be helped by this program depends on program design and Cambridge's ability to leverage resources, and is not quantified at this time since so many of the program components are still in a preliminary stage. The City Council must carefully monitor the program's progress and alter or fine-tune it as necessary.

New and Expanded Housing Programs: Cambridge Six Point Plan

1. Buyer Education

The Committee recommends that Cambridge continue and expand its buyer education program. Program offerings should include comprehensive buyer education programs for first time buyers, special sessions for former rent controlled tenants, special classes covering topics like credit improvement and buying two- and three-family buildings, and course offerings in Haitian Creole and Spanish. In order to help residents take advantage of these classes, they should be offered at locations throughout the City.

These programs are important in three ways. First, by giving participants assistance with credit, savings, and other "planning to buy" issues, they help Cambridge residents be positioned to buy in a competitive market. Second, they give residents information about special City financing programs, and special access to programs such as MHFA mortgages. Finally, they help residents assess building conditions and cost so that they can make an informed decision if they are considering buying the unit they live in.

2. Affordable Mortgage Programs

Cambridge will continue and expand special affordable mortgage programs which lower the cost of buying for first time buyers, especially former tenants of rent controlled buildings. Affordable financing, particularly for condominiums, is critical to allowing Cambridge renters become owners.

The City will explore with the Massachusetts Housing Finance Agency (MHFA) a set-aside for Cambridge residents of first time homebuyer mortgage financing. MHFA offers 30 year fixed rate mortgages at rates 1 - 2% below market rate. In addition, MHFA programs require lower downpayments than other mortgage financing.

Cambridge will also continue to implement the Soft Second Mortgage Program. This program allows for 5% downpayments, has flexible underwriting, eliminates the need for private mortgage insurance, and reduces monthly costs by up to \$200. Cambridge recently received a \$200,000 award from EOCD, bringing to \$340,000 the total allocated to program subsidies, and fully supporting \$7.5 million in mortgage funds set aside by area banks. At this time, six area banks -- the East Cambridge Savings Bank, Cambridgeport Bank, the Cambridge Savings Bank, the Cambridge Trust Company, Shawmut Bank and BancBoston Mortgage -- are participating in this program. The City should continue to work with area banks to make this program as attractive as possible to local buyers.

These two programs expand the possibility of homeownership for moderate income Cambridge buyers.

3. Affordable homeownership units

The City of Cambridge, working with local nonprofit agencies and other housing development organizations, sponsors the development of affordable units for first time buyers. Recent projects have included both rehabilitation and new construction developments comprised of condominiums, townhouses and single family homes. Examples of projects include three townhouse units recently developed on Seventh Street, and sixteen townhouse units developed on a parcel of City-owned land, formerly the Blouin site. Often the smaller projects involve rehabilitation of a vacant or dilapidated property thus improving the neighborhood as well as expanding homeownership options. Resale restrictions that require that on turnover units be sold at affordable prices to low or moderate income residents, ensure long term affordability.

The Committee's recommendation to appropriate additional funds for affordable housing will expand the ability of the City and nonprofits to finance such developments.

4. Nonprofit acquisition and management of rental housing

This program component will build on the capacity of local nonprofits to acquire and improve rental housing and operate it on a nonprofit basis. Cambridge nonprofits, with financial assistance from the City of Cambridge, have a strong track record in owning and managing properties efficiently, maintaining affordable rents, promoting mixed income housing, and giving tenants a voice in management. Often the nonprofits have purchased and rehabbed vacant and/or distressed properties which have had a blighting influence on the

surrounding neighborhood. Nonprofit ownership ensures also a permanent stock of affordable rental units.

This program element recognizes the reality that many residents will not either be able to or want to become homeowners. Supporting the acquisition of some properties by non-profit agencies will allow these residents, likely lower income and elderly, to have some potential stability in their housing situation.

Additional resources will allow nonprofits to expand their efforts in this area.

5. Incentives for owners of rental property to set aside affordable units

The Committee recommends that the City develop new programs that will assist private owners of rental housing who would like to remain owners but need assistance in order to maintain affordable units. A program involving the provision of technical assistance to property owners including help determining scope of rehab and construction management as well as low interest loans will help private owners maintain their properties as mixed income rental buildings. In exchange for this assistance, the property owner will agree to set aside some number of units as affordable.

6. Preservation of the expiring use and federally assisted rental stock

Cambridge should work to preserve the "expiring use" and other federally assisted rental stock to the extent that resources allow. Five multi-family rental projects face expiring federal use restrictions, including the following projects: 808-812 Memorial Drive; 929 House; Alewife Parkway Apartments; Huron Towers; and, Cambridge Court Apartments. Several other federally assisted multi-family projects face expiring rental subsidy contracts, including Church Corner; Walden Square Apartments; Fresh Pond Apartments; and others.

The City is conducting research into local use restrictions to preserve existing affordable housing, which will be important if the federal housing programs are significantly cut back. The City will provide technical assistance and organizing services to tenants and owners of at-risk housing in support of these preservation efforts.

The City should also position itself to take advantage of any federal program which may emerge from Congress.

Coordination of Resources - Customer-Oriented Program Delivery

Cambridge Housing Access Office

The City of Cambridge should expand and centralize housing information and referral

services. The Cambridge Housing Access Office will be a new function within the Community Development Department, which will coordinate outreach on City housing programs, answer public inquiries, and coordinate first time buyer programs, including classes, mailing list, and affordable units. Housing staff will refer Cambridge residents to appropriate programs. For example, staff will help callers assess their housing options, refer clients to the Multiservice Center for the Homeless, describe how to get on the Housing Authority waiting list, sign up households for the first time buyer unit mailing list, or help potential buyers prepare to secure mortgage financing.

Improved Outreach for City Programs

Centralizing housing referral services will create a new opportunity for coordinated public outreach for City housing programs. The housing access office will expand the current distribution of housing information through the cable TV and the schools and library system, and will also coordinate press releases, targeted mailings and distributing information through networks of community leaders, community organizations, local churches, realtors and others.

New Citywide Focus

The City of Cambridge has traditionally targeted the City's six "block grant" neighborhoods for housing program delivery, due to the City's policy of concentrating neighborhood improvement resources in the least affluent neighborhoods. However, the termination of rent control will create a citywide need for affordable housing. Accordingly, Cambridge should expand its housing programs (including buyer education, affordable rental housing production, property owner programs, and first time buyer units) using a new citywide focus, while recognizing that opportunities must be taken advantage of in whatever neighborhood they exist.

Resource Development

Overview

The Committee concurs with the City Manager's recommendation that \$2 million be appropriated to the Affordable Housing Trust annually for ten years. This appropriation will allow the Trust to develop new programs tailored to Cambridge needs, respond to shifts in the Cambridge housing market, and demonstrate a commitment at the municipal level for funding programs that will allow the City to be effective in leveraging resources from other sources. A discussion of the availability of City and other resources follows, and additional regulatory responses are discussed in Appendix 1.

City Resources

The Committee is recommending that the City of Cambridge appropriate to the Cambridge Affordable Housing Trust \$2 million annually for ten years. This appropriation will allow the Trust to develop new programs tailored to Cambridge needs, respond to shifts in the Cambridge housing market, and demonstrate a commitment at the municipal level for funding programs that will allow the City to be effective in leveraging resources from other sources.

The Committee is not recommending bonding at this time. The Committee did examine the option of the City Council authorizing the issuance of debt to finance the expanded housing program, and rejected the debt issuance for two primary reasons: the impact such an issue would have on the City's existing capital needs and the related impact on the City's credit rating.

As the City Council is aware, the City faces an aggressive debt-backed capital plan over the next few years. Projects already approved by the City Council or in the approval process include school renovations (\$25 million), the hospital upgrade (\$50 million), sewer work (\$35 million), and a new water treatment plant (\$40 to \$50 million). These projects together with other approved and planned projects such as teen centers, the senior center, Central Square improvements and miscellaneous park building and roadway improvements will cause the City's existing outstanding debt level to increase from \$ 61.7 million as of June 30, 1994, to \$169.9 million over the next 5 to 6 years depending on financing schedules. While it is true that the most costly of these projects (hospital, schools, water and sewer) are not expected to increase the tax burden because of the state assistance or related income, the debt will still be issued as a general obligation. To add a large unplanned tax supported debt issuance to this list could have a negative impact on the City's credit rating. A drop in the City's rating would add millions of dollars in costs to these projects.

The Committee also examined the possibility of utilizing residential property foreclosed by the City for non-payment of property taxes. The Committee discovered that while this process may ultimately result in obtaining some units for affordable housing, the total number of residential units currently in the foreclosure process totals 86 and the fact is that most if not all of these properties will settle their tax dispute with the City prior to a court foreclosure decree. The Committee also discovered that the Land Court frequently will re-award the foreclosed property back to the delinquent owner after the foreclosure if the delinquency is immediately settled.

Other Resources

Cambridge is currently in the process of applying for \$700,000 under EOCD's new Housing Stabilization Program to fund three new programs: a rehab program for low and moderate income condo buyers, a nonprofit or cooperative acquisition and rehab program, and a rehab

loan program that will encourage private owners to set aside affordable units. The City proposes to match this with \$1 million in local funds and over \$5 million in private bank funds. Cambridge's willingness to commit its own resources to this effort will be critical to securing state funds.

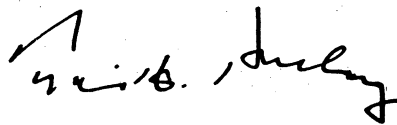
Despite the changing picture with respect to federal resources, Cambridge does expect to continue to use funds allocated under the Community Development Block Grant program and HOME program to continue to fund its housing programs. The City will also apply for any competitively allocated federal funds that become available.

The City also expects local institutions to play a larger role in the provision of affordable housing. For example, the City is currently working with Harvard University on a plan to maximize the use of portions of their portfolio for affordable housing purposes.

Conclusion

Despite a substantial response from Cambridge in terms of allocation of City resources and new programs, it is unrealistic to believe that all or even most residents affected by these changes will be protected by City actions. However, without any intervention by the City, any opportunity which may exist to preserve or create affordable housing, and help Cambridge residents stay in their homes will be lost. The responses suggested in this report represent a realistic approach in terms of the City's financial commitment and ability to respond with new programs and initiatives. Without the traditional commitment of federal resources to affordable housing, and with the phase out of rent control, there will be changes in the diversity of the City's population. However, the recommendations contained in this report point to Cambridge's commitment to initiate and implement a permanent policy to provide affordability for as many residents as possible in a highly competitive real estate market.

Respectfully Submitted,



Francis H. Duehay, Chair



Sheila T. Russell



Kathleen L. Born

Appendix I - Housing System Analysis

The City response to the current crisis needs to take into account the major strengths and weaknesses of the Cambridge affordable housing system, as identified above. The new policy must work within the constraints of the following four major factors:

1. the Cambridge housing market;
2. the City's housing delivery system;
3. the availability of public and private resources; and,
4. the role of potential regulatory changes.

An analysis of these factors indicates that the City response ought to be threefold: an allocation of new financial resources to intervene in the housing market and preserve a stock of permanently affordable housing for low and moderate income residents; a flexible approach to take advantage of market opportunities in the volatile housing market; and, research into the role of potential regulatory changes.

Housing Market and Demographic Overview

Cambridge is a City with 39,000 rental units, 15,700 of which were rent controlled until January of this year. Nearly 70% of the stock is rental, and this proportion includes the 12% of the City's housing units that are subsidized. Cambridge's housing market is characterized by high prices for both ownership and rental housing. Because the City's residential neighborhoods are fully built up, and there are few vacant lots, the potential to increase the housing stock is extremely limited, except in formerly industrial districts.

During the past 15 years, the cost of housing in Cambridge has soared beyond the reach of many of the City's residents. The combination of a seemingly endless demand to live here, a relatively fixed housing supply because of the economy, the curtailment of government funds, the termination of rent control and the scarcity and high cost of land have caused intensive competition for all kinds of housing. This is especially true for very low and low income households who may well have to face the mismatch between their incomes and the cost of housing in Cambridge.

Purchasing a house or condominium today -- whether in new construction or the existing stock-- is impossible for most of these Cambridge residents. For example, in January, 1995, the median price for non-condo residences was \$205,000, which, assuming a 10% downpayment and 9% interest rate, would require a household income of \$77,500. The median selling price of a condo, again assuming a 10% downpayment and 9% interest rate, in 1995

was \$118,000, requiring a household income of \$50,579. (However, the newly initiated Soft Second mortgage program would reduce the income requirement for a condo to \$41,513). Clearly there is a substantial affordability gap between these figures and the City's 1990 median household income of \$33,140.

Renters in Cambridge are especially hard hit by costs. Among approximately 27,000 renters, almost half have very low and low incomes. Approximately 59% of these renters are paying more than 30% of their incomes for rent while 30% have a more serious burden and are paying over 50% of income for rent. With the termination of Rent Control and the uncertainty about rent levels and conversion to condominiums, we believe that if many of these rental households were forced to move, they would be hard pressed to find affordable apartments in Cambridge except in subsidized housing where there are inordinately long waiting lists. According to a 1995 survey of realtors conducted by the CD Department, market rents in Cambridge for two bedroom apartments, currently range from \$700 to \$1400 a month. The wide range is due a number of factors, including neighborhood and unit condition. Assuming a household pays 30% of income for rent including utilities, the household paying \$700 a month must have an income of \$27,972. In contrast, the household paying \$1400 a month must have an income of \$55,944 rent, including utilities.

For a full description and demographic analysis of the City, please see the Draft Consolidated Plan, Appendix II, Attachment II, pages 5-9.

About 1,600 renters are at risk of being affected by expiring use restrictions or expiring Section 8 contracts. Also, the Housing Authority waiting lists contain almost 5,000 households who, according to Housing Authority Staff, will have to wait on the average of 3 years to receive a housing unit. The Section 8 waiting list includes 2,400 households.

Owner occupancy in Cambridge, which had been comparatively low in the 1950's and 1960's (about 20%), grew significantly from about 7,000 units in 1970 to 12,652 in 1990 (or 32% of all households according to HUD's U.S. Census analysis). Since there was little change in the number of rental units in the City, the surge in owner occupancy was due in large part to the conversions of existing rental units to condominiums. There was also an increase in the construction of town houses and condominiums during the 1980s.

With such a high proportion of individuals and small families in Cambridge, it is not surprising that more than half (over 23,000) of all the City's housing units have four rooms or less. When considering numbers of bedrooms, more than a third (15,500) of all have two bedrooms and 7,700 (18%) have three. Owner occupied units are bigger, with 52% having three or more bedrooms, in contrast to 17% among renters.

Housing Infrastructure

The City of Cambridge has an exceptionally strong housing delivery system, involving the City and related organizations such as the Affordable Housing Trust, local nonprofit housing developers, the Cambridge Housing Authority and the private sector. Stable funding and local support have allowed these groups to forge effective partnerships for developing and maintaining the City's affordable housing stock.

At the local level, the public institutions involved in the housing delivery system include the Cambridge Housing Authority, the Cambridge Redevelopment Authority and the City of Cambridge. The Cambridge Housing Authority (CHA) is a stable and efficient public housing authority, with a national reputation for excellence in its management and services for public housing tenants. By statute, it has the right of eminent domain and the ability to bond. The CHA operates a full range of federal and state housing programs, conventional and leased, for low income elderly, families, and disabled families and individuals. In addition to basic programs such as family and elderly public housing and Section 8 existing certificates and vouchers, the CHA administers a variety of special and innovative housing initiatives. These include a tenant homeownership program, several elderly congregate units linked with state service funding, several special needs residences owned by the CHA and managed by local service providers, a single room occupancy program and a tenant services program that has won national awards and recognition for effectiveness in working with youth, children and adults.

The CHA's conventional and special needs programs house some 2,700 households made up of some 5,000 persons. Another 1,650 households with 4,000 persons live in leased housing units. CHA-owned units plus leased housing certificates make up more than 10% of the City's total rental stock. The preservation and modernization of public housing are key elements of Cambridge's affordability strategy.

Despite the strengths of the Cambridge Housing Authority, recently proposed cuts in HUD threaten to undermine the progress that has been made in serving the housing needs of low and moderate income households currently living in Cambridge. If federal responsibility for these programs is abrogated, or if programs are eliminated or funded at unworkable low levels, no amount of local commitment can avoid widespread hardship and a certain degree of actual suffering.

The City of Cambridge is involved in the housing delivery system through its Community Development Department, its Human Services Department, the Affordable Housing Trust and the Cambridge Housing Cabinet. In addition to funds received under the federal HOME program, a sizeable percentage of its Community Development Block Grant (CDBG) funds are spent on housing, administered through the Cambridge Community Development Department (CDD). Along with supplying administrative support and program funds to the

local nonprofit housing development agencies, CDD provides multi-family rehabilitation funds, first-time homebuyer assistance, development funds and technical assistance for substantial rehabilitation and new construction for the benefit of low and moderate income households.

CDD acts as staff to the Cambridge Affordable Housing Trust, a trust fund established by a local zoning ordinance to develop and sustain affordable housing with funds received under incentive zoning provisions. The City Manager is the managing trustee, and the other board members include representatives from different sectors of the community concerned with housing policy, including existing city boards and agencies, nonprofit housing organizations and community representatives. The Trust has played an important role in leveraging other financing for affordable housing projects. In addition, the Trust acts as the local housing partnership entity and is charged with the review and approval of all applications for funding from the Massachusetts Housing Partnership. The Cambridge Housing Cabinet, formed in 1992, is composed of relevant representatives of City departments, who meet regularly to coordinate, review and approve affordable housing.

A key role in the Cambridge housing delivery system is played by the local nonprofit housing development agencies. Cambridge is fortunate to have several stable and experienced agencies which have been integrally involved in the delivery of housing for many years. Three agencies, Just-A-Start, Homeowner's Rehab, Inc., and Cambridge Neighborhood Apartment Housing Services Inc., have extensive experience in all levels of rehabilitation and also in management of multi-family stock. Cambridge and Somerville Cooperative Apartment Project (CASCAP) concentrates on the delivery of housing to the mentally disabled population. CASCAP has strengths in both rehabilitation and development and in the management of group homes/single room occupancy dwellings with a social service component. CNAHS, which has a partnership-model board composed of lenders, city housing officials, property owners and tenants, also has special expertise in dealing with the multi-family stock. Another nonprofit, the Cambridge Affordable Housing Associate (CAHC), which is funded by the CHA, augments the Authority's efforts to provide city-wide affordable housing.

The housing delivery system in Cambridge also involves several private entities, including lenders, developers, and private educational institutions. Local banks have been significantly involved in the financing of affordable housing in Cambridge. Four Cambridge banks have formed a consortium to create a fund of below-market financing available to nonprofit housing agencies for the development of affordable housing. This program operates in cooperation with the City's Community Development Department. Another consortium of banks has created a fund earmarked for loans to small property owners of multi-family properties. One of these banks is a member of the Federal Home Loan Bank Board and has successfully submitted applications for funding for Cambridge affordable housing projects. In addition, six area banks have set aside \$7.5 million in reduced rate mortgage funds for

first time buyers under the City's "Soft Second" loan program.

Resources

The City of Cambridge has established an excellent track record in identifying and securing public and private financial resources to address affordable housing needs of community residents. The City, and its major affordable housing organizations, have raised the necessary funding from federal, state, and local sources, as well as the private sector, to develop and operate a significant stock of affordable housing. Nonetheless, the imminent changes at the federal level, combined with the phaseout of rent control, create a dilemma of meeting increased needs with diminished resources.

The City of Cambridge has structured its affordable housing programs and housing delivery system with a primary goal of cost-effectiveness. In this age of increasing scarcity of resources available to housing and community development programs, the City succeeds in achieving formidable, yet limited, goals. The City will need to continue to improve its ability to use scarce funds to achieve the greatest possible impact on the City's housing needs.

Existing financial resources available to the City for affordable housing include federal, state, and local programs, as follows:

At the federal level, the primary sources of funding include the Community Development Block Grant (CDBG) and the HOME Investment Partnership Programs. The City receives an annual allocation of CDBG in the amount of \$3.4 million, and allocates almost \$2 million to affordable housing activities. The City receives an annual allocation of HOME funds in the amount of approximately \$700,000.

In addition, the City submits applications to HUD for competitive pools of funds related to a variety of housing programs. For example, Cambridge received an allocation of \$3.2 million in 1994 from the Lead Paint Hazard Reduction Grant Program to undertake the Lead Safe Cambridge program for a two year period. The City also has received allocations of funds for specific projects from the McKinney Act programs including Shelter Plus Care, Section 8 Moderate Rehabilitation Program, and Supportive Housing programs to support housing for individuals with special needs. Finally, the City has supported project-specific applications from non-profit developers to secure allocations of the Low Income Housing Tax Credits.

From the state, the City has received recent funding in several competitive rounds. The City has received over \$800,000 in HOME funds allocated through the state, \$390,000 in Community Development Action Grants, and over \$700,000 in Housing Innovations Funds. Cambridge has also received an allocation of \$340,000 from the state to support the Soft Second Mortgage Program for first-time homebuyers. The Executive Office of Communities

and Development (EOCD) manages a number of housing programs which Cambridge participates in, including the state HOME program, the Housing Stabilization Fund, the Soft Second Program, the Tax Credit program and the Housing Innovations Fund. EOCD also manages programs that support the development, maintenance and operations of public housing.

The Massachusetts Housing Finance Agency (MHFA) is a stable, well-run state housing finance agency. Its loans to first-time homebuyers have been an important source of housing assistance to low income homebuyers in Cambridge. Due to the high cost of real estate in the City and the strength of market demand, however, even this program has often required additional subsidies to serve moderate income buyers. Since the majority of MHFA's funding is from tax-exempt bonds, the interest rates it can offer for its financing are not low enough to serve the lowest income population without additional subsidies.

At the local level, the primary source of funds is the Affordable Housing Trust. Initially capitalized with \$1 million in City funds, the Trust has provided \$2.6 million in financing to nineteen affordable housing projects. In addition, the City has provided funds to hire a tenant organizer for residents living in the "expiring use restriction" buildings in the City.

Potential Regulatory Responses

Given the strength of the housing market and the need to identify new local financial resources, the City should consider a variety of regulatory responses to the current housing crisis. Such a response could provide an alternative approach to generating additional revenue and developing additional affordable housing units. The potential regulatory responses include three options: a real estate transfer tax, including an excise fee related to condominium conversion or land subdivision; the extension of incentive zoning to as-of-right development; and inclusionary zoning.

The first regulatory option is to establish a real estate transfer tax in order to take advantage of the extremely strong housing market in the City. The transfer tax would be a local tax on the sale of real estate. Alternatively, the City could charge an excise fee for the conversion of rental housing to condominiums or land subdivision. The City of Boston has implemented such a condominium conversion fee program since 1982. Revenue generated through these taxes or fees would be directed to the Affordable Housing Trust for affordable housing activities. The approval of the state legislature is necessary to establish a real estate transfer tax in the City. Such approval was granted to Boston for its condominium conversion fee in the Acts of 1982 (MGL Ch. 190).

As a second option, the City could extend incentive zoning to all as-of-right development. Incentive zoning is a mechanism to generate additional revenue for affordable housing production. Real estate developers would pay a fee for the ability to undertake new

commercial projects over 30,000 square feet in the City. This is similar to the existing Incentive Zoning Ordinance which applies solely to commercial developers seeking special permits.

Finally, the City could also increase its application of inclusionary zoning, also commonly referred to as a density bonus program. Private real estate developers would set aside a portion of newly-developed residential units for low- and moderate-income occupancy in return for the right to develop in excess of allowable zoning restrictions. The City currently has incorporated inclusionary zoning into the South of Pacific area in Cambridgeport, the Residential C zoning districts, and North Point.

These three potential regulatory responses provide the public benefit of additional funds for affordable housing or additional affordable units at minimal public expense. The Committee recommends continued exploration of these possibilities with reports back to the Committee related to process, likelihood of success, amount of resources to be raised, and other impacts regulatory responses may have.

Analysis of Cambridge Affordable Housing System

The major strengths of Cambridge's affordable housing approach include its strong housing delivery system, a wide array of housing programs addressing a range of housing needs, and a strong housing market (as noted below, the strong housing market is both a strength and a weakness). The housing delivery system and current housing programs represent a major City investment in the infrastructure necessary to create and preserve affordable housing. The strength of the housing market, while exerting pressure on housing prices and thus negatively affecting housing affordability, creates opportunities for effective regulatory responses and cost-effective mixed income development.

In addition, the Cambridge Affordable Housing Trust is a very successful local institution established to create and preserve affordable housing. In this period of diminishing resources, it is extremely important in the competition for federal and state resources to provide matching local resources. Such matching funds demonstrates the strength of the local commitment to affordable housing.

The major weaknesses of the affordable housing system include the age and condition of the housing stock, the high costs of developing and operating housing in the City and region, the scarcity of public and private resources available to affordable housing programs, and the strong market demand for housing in the City. The cost of land is also very high.

It is important to note that, historically, the City of Cambridge has demonstrated a high level of commitment to supporting its affordable housing efforts. The City allocates a very high percentage of its federal CDBG funds to affordable housing relative to other entitlement

cities. Cambridge spends approximately 60% of the CDBG annual budget on housing compared to 30-40% nationally.

Nonetheless, the current crisis facing the City is unprecedented and requires a strong local response. The City has the capacity to increase its affordable housing activities. Its housing delivery system and experience administering a range of housing programs is the necessary infrastructure to undertake increased levels of production. Given the current housing market conditions, however, the system must incorporate a flexible approach to take advantage of market opportunities and respond to a variety of housing needs. Such flexibility will support efforts to ensure cost-effective public interventions in the market. Finally, the City needs to further research the role of potential regulatory changes to generate additional financial resources for affordable housing.

Appendix II: Attachments

1. "Comprehensive Housing Affordability Strategy"
Prepared by the City of Cambridge Community Development Department, November 1993.
2. Draft Consolidated Housing and Community Development Plan
Prepared by the City of Cambridge Community Development Department
March, 1995
3. "Cambridge Affordable Housing Programs"
Memo to Committee on Housing and Community Development from Robert Healy
dated January 11, 1995
4. "City of Cambridge First Time Buyer Programs"
Memo to Robert Healy from Susan Schlesinger dated January 23, 1995
5. "Massachusetts Residents At-Risk: The Impact of the HUD Proposals and Alternative Solutions"
A report prepared by the Citizens Housing and Planning Association dated January 27, 1995
6. "Proposed Changes to HUD"
Memo to Committee on Housing and Community Development from Robert Healy
and Susan Schlesinger dated February 1, 1995
7. "List of Affordable Housing Developments"
Memo to Committee on Housing and Community Development from Robert Healy
and Susan Schlesinger dated February 1, 1995
8. "Report relative to City Council Order #12 on Proposed Federal Cutbacks"
Memo to Robert Healy from Susan Schlesinger dated February 27, 1995
9. "Revised List of Affordable Housing Developments"
Memo to Committee on Housing and Community Development from Robert Healy
and Susan Schlesinger dated February 28, 1995
10. "Affordable Housing Policy Chart"
Memo to Committee on Housing and Community Development from Robert Healy
dated February 28, 1995

11. Flyer on First Time Homebuyer Classes for Tenants of Rent Controlled Buildings, prepared by the Community Development Department
12. List of Housing Resources
13. Housing Affordability Guidelines
14. Preliminary Application for the Housing Stabilization Program Submitted to the Massachusetts Executive Office of Communities and Development by the City of Cambridge Community Development Department, March, 1995
15. "Attorney General Program on Distressed Properties" Memorandum to Susan Schlesinger, dated March 28, 1995
16. Affordable Housing Trust production list
17. "Condominium Conversion Excise Fees", Memorandum to Susan Schlesinger, March 27, 1995



OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

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D. MARGARET DRURY
CITY CLERK

JOHN E. FLYNN
DEPUTY CITY CLERK

MEMORANDUM

TO: The Honorable, The City Council

FROM: ^{DMD} D. Margaret Drury, City Clerk

SUBJECT: Report of the Housing and Community Development Committee

DATE: April 6, 1995

As part of the agenda of the April 10, 1995 City Council meeting, a report of the Housing and Community Development Committee is being transmitted to you under separate cover.

1.

COMMITTEE REPORTS

S-136

Housing and Community Development
Committee report for a series of public
meetings held on January 12, 1995; February 1,
1995; February 28, 1995 and March 30, 1995
to discuss strategies for affordable housing
in Cambridge in the light of the ending of
rent control and proposed reductions in
federal housing assistance.

In City Council,

April 10, 1995

*Report accepted and
Referred to the
Housing & Community
Development Committee
4/13/95 Copy sent to
Housing & Community
Development Committee*