



CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
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August 1, 1994

To the Honorable, the City Council,

I am writing to advise you of the steps now being taken by the administration to analyze and plan for the potential impact of Initiative Petition #93-19 (also called Question 9). As you know, the petition will appear on the statewide election ballot at the November, 1994 election, and if it is passed will effectively eliminate rent controls in Cambridge as of January 1, 1995. While it is not clear what the outcome of the state election will be, we are working now to consider the issues and potential impact on the City. I have met with the Affordable Housing Trust, and members of an expanded Housing Cabinet which includes representatives of the Law Department, Housing Authority, Rent Control Board, Community Development Department, Department of Human Service Programs, and Inspectional Services, as well as other key staff, to consider a wide variety of issues in order to develop a coordinated response.

The City is clearly prohibited by campaign and finance laws from undertaking any activity which would be considered as influencing the outcome of the election.

A summary of the four key issues follows:

1. HOME RULE ISSUES

If the petition passes, the City has the option of submitting a home rule petition to the State Legislature which would allow the City to reinstate some form of rent control. The likelihood of the Legislature acting favorably on a home rule request of any variety is unclear. However, we should be prepared for the possibility that in order to gain favorable action from the Legislature, significant changes to the current rent control legislation may be necessary.

We are currently examining alternate rent control systems, speaking to Boston and Brookline about their plans to submit home rule legislation, and identifying the major areas of our rent control systems which have been criticized by different groups. We will also be examining the possibility of requesting home rule authority to delay the implementation of the petition.

I intend to submit to Council by late September a policy framework on which Council decisions regarding home rule legislation could be based. I will also be speaking with our state delegation to get guidance on what sort of legislation is achievable. Another important consideration on the state level will be Governor Weld's position on the issue.

2. *LEGAL ISSUES*

We are currently researching the possibilities for additional legal challenges. Among the legal issues being considered are possible challenges to the petition on the basis of local home rule authority. A strong basis for the City's decision to challenge the certification of the initiative petition was based on the assessment of the importance of protecting Cambridge's home rule authority. There may still be questions left unanswered by the Supreme Judicial Court with respect to the relationship of an initiative petition to a specific grant of home rule authority. Some of these issues appear to be questions of first impression, and significant research is required to determine what legal strategies are available. If a lawsuit based on home rule authority is advisable, then the City would also want to look for a temporary injunction to stay enactment of the petition until the question is decided by the Court. Temporary injunctions are not granted unless the Court finds both that there is a probability of success on the merits and that there would be irreparable harm if the injunction is not granted.

3. *IMPACT ON CAMBRIDGE HOUSING AND PROGRAMS*

If Petition #93-19 passes, there are significant long term impacts on the City for which we are attempting to plan.

Impact on Low Income Tenants

Most critical is the potential displacement of lower income tenants. We anticipate that the types of households most vulnerable to displacement from rising rents, condo conversion, and removal of rental units from the housing stock, would be lower income households with children and lower income elderly households. While the City has a number of programs currently in place which help lower income families and individuals locate affordable housing (often outside of Cambridge), mediate landlord tenant disputes, or, in the most extreme situations, provide temporary shelter, these programs are not adequate to deal with any significant influx of clients. The Department of Human Service Programs is examining these "safety net" programs to identify areas where they may need to be expanded. These systems are currently at capacity, and the City's ability to assist additional households is marginal.

With 5,000 households on the Cambridge Housing Authority waiting list (over 2,000 of which are Cambridge households and have priority), and a turnover rate of fewer than 200 units per year over the last two years, there is virtually no extra capacity in public or subsidized housing.

In addition, there are 414 Cambridge tenants with tenant-based Section 8 Certificates living in rent-controlled units. These households have been in demand as tenants among rent controlled property owners, since certificates often carry higher rent values than rent control rents. Absent rent control, rents in some parts of the City would likely exceed these Section 8 rent levels, and owners would be less likely to rent to Section 8 tenants. The Housing Authority expects that many tenants would be forced either to move to the lower-rent areas of the City, or to leave Cambridge altogether.

Impact on Provision of Affordable Housing

Diversity has been identified as one of the City's most important values. Affordable housing targeted to low and moderate income households, is critical to maintaining that diversity. The Community Development Department is examining a number of tools, including inclusionary zoning, which would continue to provide some, although a very modest number, of affordable units in the future. Because it would take time to implement such measures, and because they would be tied to the rate of new construction, we can expect that any additions to the affordable housing stock would be very gradual.

Impact on Land Use and Planning

The elimination of rent control will have a number of land use and planning impacts, primarily because the removal permit provisions in the rent control ordinance have restricted conversion of residential to commercial uses, and demolition of rent controlled units.

Staff of the Community Development Department and the Historic Commission, and a member of the Planning Board are currently analyzing zoning districts that might allow conversions to commercial uses, as well as the location and number of "soft sites" -- sites which have residential units but which are underbuilt relative to current zoning. An important planning goal in Cambridge's growth policy has been the preservation of existing neighborhood character, and changes in use resulting from eliminating prohibitions on removal of rental units could result in significant changes. However, the current soft market for both new residential and commercial space will result in less pressure for change than we would experience in a more active market.

3. REVENUE IMPACT

Discussions with the City's Finance Department indicate that the tax revenue impact from changes in rent control is extremely difficult to predict because of anticipated changes in the market value of units. Any substantial tax revenue impact will hinge upon whether the State Department of Revenue allows value increases to be counted as "new growth" and thereby be added to the City's levy limit on top of the base 2 1/2%.

There are four different types of value increases. The first is the market value of approximately 1,000 "ordinanced condos" in Cambridge which are currently valued at a percentage of full market value. In Brookline, the DOR has allowed the increase in market

value of existing condominium units when a tenant paying rent-controlled rents moves out to be used as new growth in the levy limit calculation. Whether the same leeway would be allowed Cambridge remains to be seen.

The second and third types are new condo conversion of existing rental buildings, and demolition with new construction. Both clearly qualify for tax base growth under current regulations of the DOR. However, the market values of condominium units after a substantial increase in the supply of units for sale is very difficult to project, and the time required to vacate and either market or demolish buildings can be expected to be several to many years. More importantly, it is unclear how strict the DOR will be regarding the new growth calculations in light of the increased market value of apartments even before conversion to condominiums. It is important to note that, even if conversions take place immediately, the fact that properties are assessed on January 1, 1995 for the FY96 tax year would mean that there would be a significant lag time (approximately 18 months) before any new revenues would be realized. Consequently, any additional revenue which might be used to mitigate displacement will arrive long after it is most critically needed.

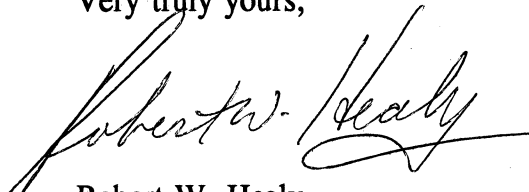
The fourth type is an increase in value of a apartment units as a result of higher rents. It appears that under current DOR regulations, the increase in value might not be allowed as new growth. It is the assessor's belief that any declarative statement as the eligibility of this value increase for new growth must come from the Department of Revenue.

Aside from the issue of tax revenue increases, there may be tax shifts among existing classes of property. Barring unforeseen circumstances, virtually all these shifts will occur within the residential sector. Generally, currently owner occupied properties will see modest tax reductions as the value of previously rent controlled property increases. However, some of this reduction will be nullified by residential exemptions for which new condo owners will qualify.

Staff is also working to evaluate the impact, if any, that an increase in assessed value would have on local aid.

In conclusion, there are a number of extremely serious issues facing Cambridge, and I will ensure that my staff is working in a coordinated manner to provide City Council with the information it needs to make policy decisions.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Robert W. Healy", written in a cursive style.

Robert W. Healy
City Manager

Consent Agenda # 23

8 369

Analyze and plan ~~X~~ for the potential
impact of Initiative Petition #93-19
(also called Question Nine.)

In City Council,

August 1, 1994

*Charter Right
exercised by
Councillor Walsh.*

*9/12/94 - No action
taken. Placed on
file under Rule
nineteen of the
City Council Rules.*