CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

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MEMORANDUM

TO: Councillor Jonathan Myers, Chair, Rent Control Committee
Councillor Timothy Toomey
Councillor William Walsh

FROM: Susan Schlesinger, Housing Director, Community Development Department

DATE: June 2, 1992

The four multi-family loan funds, Rental Rehab, Neighborhood Apartment Housing Services, HELP and Small Property Owners have provided rehabilitation financing for 442 units in 73 buildings. In the three programs which require income information about tenants, approximately 80% of the units are committed to low/moderate income tenancy. These programs have provided approximately $3,000,000 in direct program funds and leveraged an additional $14,300,000 in other funds to support multi-family rehab. The Small Property Owners Program has resulted in an additional $537,016 in investment.

Unfortunately, these loan funds are not adequately capitalized to continue the same rate of production. The Rental Rehab Program which has committed $1,369,946 in loans, currently has approximately $5,000 in uncommitted funds and the Program has been defunded by the federal government. The NAHS Loan Fund which has committed $900,100 in loans has approximately $200,000 of unspent monies however there are a number of projects already being processed which could require all these funds. The State, a major source of NAHS Loan Funds, has not allocated new funding for the program in the last two budgets. The HELP Fund which has committed $720,000 in loans has approximately $190,000 in uncommitted funds. The Small Property Owners Program has approximately $462,984 in remaining funds. It is likely that the bank consortium will recapitalize this program.

Clearly, the identification of adequate and appropriate new resources to capitalize these loans fund is critical if the City is to continue to achieve its two goals of preserving the multi-family stock as well as ensuring affordability and access for low and moderate income households.

SS:nb

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	Source of Funds	Eligible Properties	Level of Rehab	Loan Terms	General Comments
1. Small Property Owners Program	- Consortium of 4 Cambridge banks capitalized fund at $1m. - Administered by NAHS, funded by City monies	- Rent Controlled (R.C.) properties - Owners w/ fewer than 12 units - $8,000 per unit maximum loan - Limited to units needing less than $15,000 per unit	- Aimed at modest rehab needs - Attempts to stop further deterioration; stabilize property - Phased approach possible	- 2nd mortgage - Interest only 1st yr. then principal - Current rate 10%	- NAHS provides technical assistance to owner - Rents set prior to rehab through Reg. 78 - Rent increase limited by loan amount - Phased rent in creases
2. NAHS Loan Fund	Loan pool capitalized by - State funds - CDBG funds - Repayments N.B. State funds for this program have been eliminated - Administered by NAHS, funded by CDBG monies	- R.C. properties w/51% low/moderate income residency - Owner commits to rent to low/mod tenants - $15,000 per unit limit	- Range from moderate to substantial rehab depending on condition of property - Sec. 8 Quality Hsg. Standards must be achieved	- Low interest loans	- NAHS provides substantial T.A. to owner/tenant input on rehab scope - Rent adjustments thru Reg. 77 process which reduces increases + approves rent increases prior to rehab - Generally works in tandem w/conventional bank financing
3. Rental Rehab	Capitalized by - Federal funds Sec. 8 certificates connected w/Program N.B. - Program defunded - Administered by CDD/JAS	- Any rental unit - 51% low/mod residency - Owner commits to rent to low/mod tenants - Limits on loan amounts: $7,500 2-BR $8,500 3-BR and up	- Range from moderate to substantial rehab - Sec. 8 quality housing standards must be achieved	- Deferred loans (no payment of principal or interest) - Low interest loans	- Technical assistance offered to owners by CDD and JAS/tenant input on rehab scope - Reg. 77 Rent Adjustment - Must leverage at least 50% other funds - Rent subsidies allocated

4. HELP	Capitalized by - Harvard/Kuehn Associates - Administered by CD	- Vacant and/or seriously distressed - R.C. properties w/4 or more units - Regulatory Agreement requires priority for low/mod tenants - No limit on loan amount per unit	- Substantial rehab given eligibility standards	- Low interest loans - Term defined by Agreement (15 yr. maximum)	- Reg. 77 Rent adjustment - Used in limited equity coops, SRO's

New Sources of Rehab Funds

5. HOME Program -

→ Highly income targeted/ 90% of assistance for units w/households making less than 60% of median income

→ Long term affordability ensured through deed restriction

→ Federal rent regulation required>80% of units at 30% of 65% of median
20% of units at 30% of 50% of median

→ Sec. 8 standards must be achieved

It does not appear that the HOME Program will be a substantial new source of rehab financing for rent-controlled multi-families. As currently drafted the program imposes restrictive eligibility, rent regulations and affordability guarantees as well as annual monitoring of rent levels, tenancy and building conditions by the City. In the second year of funding, a financial match will be required. These regulations and monitoring requirements seem to make acceptability for most owners difficult. The City will consider use of HOME monies in rent-controlled properties on a building-by-building basis and, develop a pilot multi-family program if possible.

6. Pilot Delead Program -

This Pilot Program is aimed at providing incentives for owners to delead their units and rent them to low/moderate income families. The program will give a grant of up to $2,500 or 50% of the cost of deleading to owners of eligible properties. Units owned by small property owners, vacant units and units occupied by lower-income families with children under seven yrs. of age have a priority. (Begins Aug. 1, 1992)

City of Cambridge

The Rent Control Committee held a public hearing on Tuesday, June 2, 1992 beginning at 5:50 p.m. in the Sullivan Chamber, City Hall.

Councillor Jonathan S. Myers, Chair of the above referenced Committee, convened the hearing and stated that the purpose of this date's proceedings would be a discussion on the Rehab and Loan Programs in the City of Cambridge: What's Working? What's Not Working? and how the City proceeds from here. Present at the hearing were: Councillor Timothy J. Toomey, Jr., Councillor William H. Walsh and Deputy City Clerk John E. Flynn.

To begin the discussion, Councillor Myers introduced Ms. Susan Schlesinger, Housing Director, Community Development Department (CDD) for an overview of the range of loan programs administered by her department. Ms. Schlesinger presented to the Committee a chart illustrating the four multi-family loan funds - Rental Rehab, Neighborhood Apartment Housing Services, HELP and Small Property Owner - detailing the source of funds, Eligible Properties, Level of Rehab, Loan Terms and General Comments. (A copy of the Chart is attached). Ms. Schlesinger stated that the goals of these programs was to a)preserve the housing stock; and b)preserve the affordability of the housing stock. She also noted that the Small Property Owners Program is aimed at preventing further deterioration of the stock and is a first phase rehab program not aimed at worse-case situations. She further stated that these programs have resulted in providing financing for 442 units in 73 buildings.

Councillor Myers requested further explanation of Ms. Schlesinger's statement outlining the Small Property Owners Program with regards to first phase rehab.

Ms. Schlesinger in response stated that the guidelines provide for an $8,000 per unit maximum loan. This maximum loan impacts the affordability of the unit in the housing stock. The interest rate is 10% for a period of twelve years resulting in a phased-in low cost factor.

Ms. Schlesinger also presented to the Committee a memorandum dated June 2, 1992 outlining the levels of available funds, uncommitted funds, leveraged funds and program funds. (A copy is attached).

Ms. Schlesinger also stated that the Neighborhood Apartment Housing Services is slated to be essentially defunded in the Fiscal 93 State Budget as well as the Rental Rehab Program being defunded in the FY93 Federal Budget.

Ms. Schlesinger also outlined two new sources of Rehab funds - the HOME Program and the Pilot Delead Program. These are also outlined on the Chart.

Councillor Toomey inquired if the Pilot Delead Program carried a stipulation that participation was restricted to Low/Moderate income families.

Ms. Schlesinger responded in the affirmative.

Councillor Myers inquired of Ms. Schlesinger for her insights regarding what is working and what is not in the various loan programs.

Ms. Schlesinger stated that what seems to be working in the various programs is as follows:

- Technical assistance;
- Access to financing - very low or deferred monies; and
- Section 8 or 707 Rental Subsidies.

The obstacles to participation in these loan programs are as follows:

- Perceived risk;
- Lack of predictability with the Rent Control Board; and
- Lack of expertise by small owners in these areas.

Councillor Walsh inquired of Ms. Schlesinger in regards to the HOME Program if the rent ceilings superseded the rent controlled rent ceilings.

In response, Ms. Schlesinger stated that the program was an extremely targeted one, not a cost based system and that federal regulations covered the monthly rental fee.

Councillor Walsh inquired of the average rehab estimate per unit.

Ms. Schlesinger stated that the range is $25,000 - $30,000 per unit.

Councillor Myers inquired of the participation rate of owners in the 442 rehabed units in the 73 buildings.

Ms. Schlesinger in response stated that a significant drop-out range has been witnessed where three out of four owners drop-out.

Councillor Toomey inquired about the reasons for this drop-out range.

Ms. Schlesinger stated that some factors include:

- Property Owner afraid to increase debt; and

- Building Values could be decreased; and

- Level of complexity.

Councillor Myers inquired by what means the $3,000,000 in direct program funds have been leveraged to $14,000,000.

Ms. Schlesinger stated that it was done through other public funds and conventional bank financing.

At this time, Mr. Peter Daly, Executive Director of Homeowner's Rehab, Inc., outlined to the Committee the workings of his agency in regards to the loan program. He stated that the rehab work undertaken is focused on rent-controlled properties to bring it up to some degree of code while keeping its affordability. He further stated that a partnership approach is undertaken in the process: satisfy property owners; ensure the ability of tenants to pay the rent; meet lender requirements; and satisfy city requirements. He further stated that this consensus approach provides for an element of fairness on all parties.

He stated that his agency is involved in a wide range of rehab: from less than $7,000/unit to over $50,000/unit.

Mr. Daly outlined the following factors in the Drop Out rate:

- Cash flow on property is bad - with the addition of more debt - negative cash flow resultant in rehab not being bankable;

- Risk - not a lot of faith in system exhibited by property owner - properties more marketable with little debt; and

- Strings attached.

At this time Mr. Gordon Gottsche, Executive Director of Just-A-Start Corporation, provided a historical overview of the workings of his agency in the City of Cambridge. Mr. Gottsche stated to the Committee the need for technical support to be provided throughout the entire rehab process. He spoke of the rehab experiences that he has witnessed with regards to the diversity of funding sources and cited the current rehab efforts at the former St. Patrick's Church site.

He offered the following suggestions to the Committee:

1. Look at the less distressed buildings phase in rehab;

2. Increase pressure by City on State Administration regarding 707 funding; and

3. Increase pressure by City on Federal Government regarding Section 8 certificates.

At this time Councillor Myers opened the floor for the perspective of the Cambridge Tenants Union and Small Property Owners Association.

Mr. Michael Turk, 24 Prescott Street, Co-Chair, Cambridge Tenants Union, stated his criticism of the local banking community with regards to their limited involvement in the rehab efforts of the City and property owners. He also stated his belief that a more critical role is needed to be done by the Community Development Department in this area. In regards to rehab, Mr. Turk, citing two memorandums issued by CDD in 1988, questioned the vagueness in location and cost of rehab per unit in the number of identified distressed buildings. He also provided the Committee with a historical overview of the property located at the premises numbered 22-32 Cogswell Avenue. In conclusion, he urged caution but expressed the hope that phased-in, piece-meal, no-frill rehab can work to preserve the affordability of the housing stock.

Mr. Salim Kabawat, 145 Bishop Allen Drive, Co-Chair, Small Property Owners Association, stated that the funds available through the various loan programs are a drop in the bucket for what is needed to address the problems. He also stated that the system needs a lot of money and that the City has to come up with real money. He also expressed the belief that qualifying for the loans often-times penalizes the owner-occupied rent control property owner.

Councillor Myers inquired of Mr. Kabawat of the level of interest by the Small Property Owners in participating in these programs.

Mr. Kabawat stated that some interest exists but problems with qualifications also exist. He urged some creativity in the need to come up with some guarantees.

Ms. Constance Thibault, 44 Linnaean Street, spoke critically of the federal eligibility requirements for receiving federal rent subsidies.

Mr. Peter Shapiro, Just-A-Start Corporation, stated the belief that there exists wide scale agreement with phased-in rehab. He spoke against the proposed amendment to the Municipal Code regarding the State Sanitary Code.

Mr. Dana B. Gersony, 89 Second Street, spoke critically of the competence of Just-A-Start Corporation in its rehab efforts.

Mr. Skip Schloming, 102 Inman Street, suggested to the Committee that a picture frame exists in the minds of all regarding rehab. He stated that a need exists to look around it. He also stated that a clarification is needed between conventional rehab and the image of habitability. He stated that the cost of rehab would decrease if some of the sacred cows are given up. He stated that esthetics and smooth walls do not effect livability. He stated his agreement with phased-in, piece meal rehab.

Ms. Linda Levine, 26 Mount Auburn Street, stated her support for Mr. Turk's positions regarding the banking community. She also stated that one aspect not being explored is who is living in these units.

Councillor Myers thanked all who participated for their comments. He also announced that the next meeting of the committee would be Thursday, June 25, 1992 with the City Manager and Housing Cabinet to further discuss this low rent issue.

The hearing was adjourned at 8:00 p.m.

For the Committee,

Councillor Jonathan S. Myers
Chair

COMMITTEE REPORT # 13-26

Rent Control Committee Report for a hearing held on Tuesday, June 2, 1992 relative to the Rehab and Loan Programs in the City of Cambridge.

In City Council,

Aug. 3, 1992

Report accepted
Placed on file.