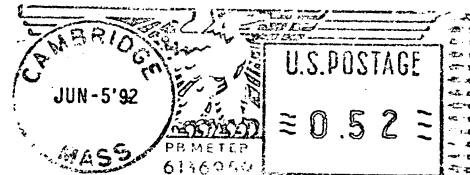


OFFICE OF THE CITY CLERK
City Hall • Cambridge, Mass. 02139



Harvard Square Business Assoc.
Sheldon Cohen
4 Brattle Street, Room 256
Cambridge, MA 02138

FORWARDING
ORDER EXPIRED
RETURN TO SENDER



Maryanne Cahill

TO SEND
EXIBED
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TO SEND

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City of Cambridge

IN CITY COUNCIL

June 5, 1992

Mr. Gordon Gottsche
Just A Start.
P. O. Box 310
432 Columbia Street
Cambridge, MA 02140

Dear Mr. Gottsche:

Please be advised that Vice Mayor Ed Cyr, Chair of the Housing and Community Development Committee has scheduled a public hearing for Wednesday, June 10, 1992 at 5:30 p. m. in the Ackermann Room.

The purpose of this hearing is to discuss the recently released report of the Housing Cabinet, and particularly the issue of rehabilitation of the most deteriorated housing stock while maintaining affordability. Said report is attached for your review.

You are requested to attend at this time and be heard.

Thank you for your cooperation in this matter.

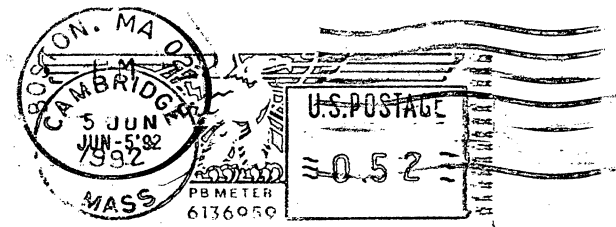
Very truly yours,

Margaret
D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.

OFFICE OF THE CITY CLERK
City Hall • Cambridge, Mass. 02139



Mr. Gordon Gottsche
Just A Star
P. O. Box 310
432 Columbia Street
Cambridge, MA 02140



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City of Cambridge

June 5, 1992

TO: HOUSING CABINET:

**ROBERT W. HEALY, CITY MANAGER
JOSEPH CELLUCCI, INSPECTIONAL SERVICES COMMISSIONER
JILL HEROLD, ASSISTANT CITY MANAGER FOR HUMAN SERVICES
TERRY MORRIS, EXECUTIVE DIRECTOR OF RENT CONTROL
ELLEN SEMONOFF, SPECIAL ASSISTANT TO THE CITY MANAGER
SUSAN SCHLESSINGER, HOUSING DIRECTOR
MICHAEL ROSENBERG, ASSISTANT CITY MANAGER FOR
COMMUNITY DEVELOPMENT**

FROM: ^{DMD} D. MARGARET DRURY, TEMPORARY CITY CLERK

SUBJECT: PUBLIC HEARING TO DISCUSS THE REPORT FROM THE HOUSING CABINET.

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OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 5, 1992

To Whom It May Concern:

Please be advised that Vice Mayor Ed Cyr, Chair of the Housing and Community Development Committee has scheduled a public hearing for Wednesday, June 10, 1992 at 5:30 p. m. in the Ackermann Room, Second Floor, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts.

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D. Margaret Drury
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Temporary City Clerk

DMD/dl

Enc.



OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 5, 1992

TO: HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE

dmd
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OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 5, 1992

Mr. Michael Haran
CASCAP
678 Massachusetts Avenue
Cambridge, MA 02139

Dear Mr. Haran:

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Very truly yours,

D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.



City of Cambridge

IN CITY COUNCIL

June 5, 1992

Mr. Gordon Gottsche
Just A Start.
P. O. Box 310
432 Columbia Street
Cambridge, MA 02140 /

Dear Mr. Gottsche:

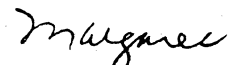
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D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.



OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 5, 1992

Mr. Daniel Wuenschel
Cambridge Housing Authority
270 Green Street
Cambridge, MA 02139

Dear Mr. Wuenschel:


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D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.

10.



CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL 349-4300
FAX 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

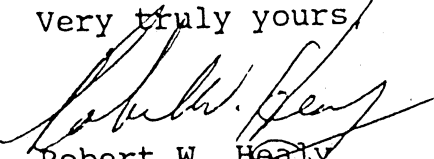
RICHARD C. ROSSI
Deputy City Manager

May 28, 1992

To The Honorable, The City Council:

Attached is a report from the Housing Cabinet. There are a number of policy issues raised in the report that I would like to bring to the Council's attention.

Very truly yours,



Robert W. Healy

REPORT OF THE HOUSING CABINET TO THE CITY COUNCIL

INTRODUCTION

Since its establishment in late 1991, the Housing Cabinet has been meeting to coordinate City housing programs. These meetings have provided an important forum for discussing and resolving problems with particular properties where action is required by more than one City agency. A notable recent example is that presented by the property at 19 Market Street. The serious fire in this rent-controlled building necessitated a response from several City agencies, including the Fire Department, Emergency Management, the Department of Human Services, Inspectional Services, the Rent Control Board and the Community Development Department. The Housing Cabinet provided an efficient means of coordinating the follow-up required of each department.

In addition, discussions by the Housing Cabinet of the particulars of this fire at this property resulted in the Cabinet's conclusion that future coordination of such services can best be achieved through the articulation of a specified set of procedures to be employed by all involved City departments in multi-family building fire and other disasters which may result in the displacement of persons from their homes. The Cabinet is currently in the process of developing these guidelines.

The Housing Cabinet has also made progress in institutionalizing interagency staff coordination and resource-sharing. One important example of this is in the area of utilization by the Rent Control Board of Community Development's expertise in housing rehabilitation. Not only has informal consultation been increased, Rent Control and Community Development have planned jointly a training for hearing examiners in the area of rehab issues and costs. Furthermore, the Housing Cabinet is attempting to implement a pilot program to have the Inspectional Services Department collect information about the capital needs of units during routine housing, electrical and plumbing inspections of units in multi-family buildings.

THE CENTRAL PROBLEM OF AFFORDABLE PRESERVATION

During the course of the meetings, it has been clear that there are recurring underlying issues which should again be brought to the Council's attention. As the City Council recognized in its Cambridge Housing Plan, adopted by the Council in 1991, a central problem for Cambridge housing policy is how to encourage and facilitate the investment that an aging stock of residential rental housing requires without rendering the stock unaffordable for low and moderate income tenants.

Housing that was built 75 years ago needs major investment to stay in service.

Cambridge's rent control system provides for the capital improvements required to maintain the stock by allowing rent adjustments to cover the costs of such work. Many owners of rent controlled stock have been able to make such investments. Their buildings are in decent shape, and the rents for their units are at the high end of the rent control continuum of rents. But throughout the city there are buildings which quite obviously have not had such investment. They are in extremely deteriorated condition, and their rents are among the lowest in the same continuum. According to a 1990 study by the Rent Control Board, those units also tend to be occupied by the lowest income tenants, who, according to that study, are trapped in these units, paying all the rent they can afford for substandard housing.

If these property owners make the capital improvements needed to fix up the apartments and receive the increases allowable under rent control law, the low-income tenants will be unable to afford the resulting rent increases, and they will be displaced. If the property owners do not make capital improvements, the apartments will become uninhabitable and, again, the tenants will be displaced.

It might be helpful to look at the nature of the investment and the resulting rent increases that would occur under three different scenarios for an extremely deteriorated building. A conservative estimate of the cost for rehabilitation of each unit in such a building is \$30,000.

First, if the rehabilitation is done by a landlord under existing rent control rules with no public subsidy, the rent increase per month is \$420, not including any increase in operating expenses.

Second, if the work is funded by a deeply subsidized loan with the landlord paying only 3% interest on the \$30,000 for 15 years, the resulting increase to the tenant will be \$207 per month, again without any allowance for yearly increases in operating costs or taxes.

Third, where the rehabilitation is done with funds made available by grant or deferred loan (no payback so long as certain conditions are met), there is no increase,¹ and no danger of displacement, but the public subsidy for one six-unit building would approach \$200,000.

LOW INTEREST LOANS AND BONDS FOR REHABILITATION

The clearest way to achieve both goals, affordability and preservation of the stock, is to identify resources to capitalize a low-interest or no-interest loan fund. One potential source of capital for a loan fund which has been suggested is tax revenue; another source is tax exempt

¹Since there is no rent increase resulting from a deferred loan or grant, the cash flow from the building does not increase.

bond funding. If either of these sources were used to fund a loan pool, significant restrictions which would ensure primary public benefit for low and moderate income households would have to be included. These restrictions include:

- A significant portion of tenants in a building which was going to receive loan funds would have to be low income. Income documentation would be required.
- A property owner applying for funds might also have to qualify as low income.
- Property owners would have to guarantee affordability for the length of the bond or loan. This could be difficult to achieve if operating costs increase or additional rehab becomes necessary.

In addition, the Anti-Aid Amendment to the State Constitution, which prohibits a municipality from spending tax revenue to assist in gain for a private party could impose additional requirements for public benefit which, in turn, could create additional barriers to the use of tax dollars for the rehab of rent-controlled properties. Furthermore, if the source of the funds were to be tax-exempt bonds, not only would home rule legislation be required, the funds would be subject to the volume cap. This is a federal cap on the total amount of private activity tax-exempt bonding, that is bonding for loans to private parties who are not 501(c)(3) nonprofit corporations, which can be done in the Commonwealth. The volume cap is administered and enforced by the Executive Office of Communities and Development (EOCD). Municipalities which wish to issue bonds which fall under the volume cap must apply to EOCD for authorization. It is also possible that such bonding could be subject to a requirement for a public hearing prior to the individual loan. Even with tax exempt bond rates, which are today approximately six percent, an additional write down of interest rate would be required to ensure affordability.²

The City has experience³ with low interest loan funds involving some of the restrictions

²This memorandum does not address issues relating to the use of tax exempt bonding for affordable housing development. Tax exempt bonds for loans to 501(c)(3) nonprofit housing development agencies would not be subject to the volume cap. The levels and length of affordability typical to nonprofit development of affordable housing would generally meet public benefit requirements. There is, of course, still the issue of the necessity of additional subsidy to make the housing affordable. If the project can be developed on City-owned land, the affordability gap is lessened.

³Cambridge Community Development Department currently administers, and contracts with Just A Start to assist, the Rental Rehab loan program for multi-family rental properties. CDD also administers the Harvard HELP loan fund. In addition, CDD provides administrative support for the multi-family rental loan program and the Small Property Loan Program of

which would be required if tax revenue or tax exempt bond funds were used. This experience indicates that very few property owners are likely to participate in a rehab program with the restrictions required. Common requirements in existing low-interest loan programs are:

- The property owner must guarantee at least fifteen years of affordability.
- The promise of affordability is secured by a mortgage, which the City can call if the promise is not kept.
- The monitoring of occupancy of the units is necessary but not popular with owners.
- Conventional financing must be secured for units occupied by wealthier tenants above certain income levels.
- The loan, even at low interest rates, appears as a debt, which means that an owner who wants to sell the property will realize fewer proceeds.

Therefore, a publicly financed program for rehabilitation of privately owned housing is unlikely to attract many owners because of the restrictions imposed where municipal public funds are used.

INCENTIVES FOR PARTICIPATION

There are, however, a number of ways to provide incentives for participation of property owners in a rehab program involving low interest funds. One way to encourage owner participation even with the restrictions is to invest not the minimum amount of public funds to rehab the building, but to build in a larger loan amount which would allow the property owner to receive improved cash flow. This would result in a more expensive program with potentially fewer units being rehabbed. Another way to make a rehab program more attractive is to reduce the number of restrictions related to the loan, for instance, reduce requirements for long term affordability and occupancy of low income households. The only way to reduce restrictions which lock in public benefits would be to change the source of financing since tax exempt bonding and tax revenue financing requires public benefit. A third way might be to give grants rather than loans, so property owners' debt on a building would not be increased and risk would be minimized. The effect of this would be to eliminate any possibility of funds revolving and give the City limited security.

For a loan fund to work well, the source of money needs to be regenerative as well as

Cambridge Neighborhood Apartment Housing Services.

flexible. With \$1 million of deferred loan (grant) funds, thirty-three units could be rehabilitated if the cost were \$30,000 per unit. To rehab the 200 units studied by the Rent Control Board at this cost would take \$6 million. If these funds are loans, in order to minimize the rent increases, not only must the interest rates be low, but the term must be long. This means that very little money is available for reuse for the first several years, so the loan fund must be recapitalized year after year.

RENT CONTROL BOARD INITIATIVE FOR PRESERVATION

Some changes and proposed changes in the Rent Control Board's regulations address the issue of preservation of the City's housing stock. The Board's proposed pre-approval rent adjustment procedures are the most important example. By creating a process which enables a property owner to ascertain the scope and costs of work which the Board will approve before the owner does the work and spends the money, the Board expects to provide increased incentives for owners to engage in preservation work. However the pre-approval process does not deal with the affordability issue. In fact, by allowing necessary rehab without providing subsidized financing, the result will be to increase rents potentially to levels unaffordable to low/mod income tenants.

ACCESS FOR LOWER INCOME TENANT TO PRIVATE AFFORDABLE UNITS

Another central problem for Cambridge Housing policy, and again, one emphasized by the City Council in its 1991 policy document, is the problem of access to the existing affordable private rental stock for low income people and for families. Housing need studies done or commissioned by the City consistently demonstrate that more housing is needed for low and moderate income families in Cambridge.⁴ There are over 5,000 families on the Cambridge Housing Authority waiting list.

Much of the rent-controlled stock is affordable to low income families. The average rent-controlled rent is \$464. By conventional standards of affordability 30% of income for housing costs, this rent is affordable to a family with an income of \$16,668. Over half of all rent-controlled units have two or more bedrooms, which make them suitable for households with children. According to a recent Housing Needs Study, 28% of rent controlled units are occupied by families.

In the past, the federal Section 8 and state 707 programs, both administered through the

⁴See, e.g., Goetze, Rolf, "Cambridge Housing Challenges," 1990.

Cambridge Housing Authority (CHA), have been effective in providing access for low income families to the available rental units. Since units rented to families holding Section 8 or 707 certificates are exempt from rent control and owners receive a market-rate rent from the CHA, there is a big incentive for rent-controlled owners to rent to tenants holding certificates. Now, however, the number of available certificates has decreased sharply, and continues to decrease each year. Clearly, other ways must be found to facilitate access by Cambridge low and moderate income families to housing affordable to them.

POTENTIAL RENT CONTROL BOARD POLICY ENHANCEMENTS TO ACCESS

The Cambridge Rent Control Board is currently exploring whether allowing the merger of small units to create family-sized units would lead to an increase in utilization of the units by families. In addition, the Rent Control Board has surveyed other rent control jurisdictions to determine whether those administrations have created programs to create incentives for the rental of units affordable without subsidies to lower income tenants.

Although the survey of fourteen jurisdictions revealed that few other rent control systems have created such incentives, the Board discovered that the Santa Monica Rent Control Board has a "dedicated units" program. In exchange for renting a rent controlled unit to a low income family, the next voluntarily vacated unit receives a one-time rent adjustment for either \$400 or \$600, depending on the income, and therefore the rent level for the low income tenant. The Santa Monica program has been in operation since February, 1989. The Santa Monica Rent Control Board Administration has recently completed an evaluation of the program, and, as a result, has recommended some changes. The recommended changes include reducing the required participation period (currently ten years) to three to five years and providing additional incentives for renting to families with children. Although property owners cited the complexity of the program as a major reason for not participating, the administration did not recommend reducing the complexity, because it felt that simplification would be accomplished at the expense of many of the built-in protections against harassment and duplicity. Overall the evaluation rated the program as currently small, but with potentially positive results in the future. The Cabinet recommends that the Council's Rent Control Subcommittee consider this program, and at the request of the Subcommittee will forward additional information about this program.

CONCLUSION

The problem of access for low and moderate income tenants to affordable decent housing remains one of the most difficult problems facing any city. Rent control does not address this problem - it does not guarantee access to units for low income households nor assure existing tenants living in deteriorated buildings that their rents will not be substantially increased because of necessary rehab. Nor are the existing loan programs the City administers sufficient to address the problems. Rehabilitation of existing rent control housing with public funds requires

landlords to accept or keep tenants who meet income guidelines. Rehabilitation without these restrictions requires that other funding sources be identified. To secure access to affordable housing for tenants of low income requires real incentives to landlords beyond what has been tried here.

The Council has indicated two equally important goals in relation to the housing stock: rehabilitation of the stock and increased access to low income households. However, with limited resources, there are tradeoffs that must be made. The Council needs to continue the discussion concerning what is its top priority in housing. If access to affordable housing for low income tenants is the top priority, further realistic exploration of new funding sources for rehabilitation and innovative incentive programs for access should be explored. The City cannot do all of these things with the currently existing resources and the Council needs to decide what is its most important policy goal.

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Hearing of Housing + Community
Development Subcommittee

June 10, 1992 Wednesday
time:

Purpose: Consideration of the Report of
the Housing Cabinet and
Workplan for Policy Decisions

NOTIF

To: Housing Cabinet

~~Robert~~ Rob Daly, Ellen Sennoff,
Michael Rosenzweig, Susan CDD
Schlesinger, Joe Hevrod,
Joe Cellucci, Terry Morris CREA,

Don

Don Weunckel CHA, 2709
Peter Daly HRT Homeless Rehab Inc
Gordon Gottsche JURA Star 402-266-310
Michael Haran CASCAP, 678-e 202140

City of Cambridge

June 4, 1992

TO: HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE

FROM: D. MARGARET DRURY, TEMPORARY CITY CLERK

SUBJECT: PUBLIC HEARING TO DISCUSS THE REPORT FROM THE HOUSING CABINET.

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Thank you for your cooperation in this matter.

Hong & CD

Week from WJQ

h 10, 1992

~~Adelman Room~~

/ Adelman

Invite Housing Cabinet

10.



CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL 349-4300
FAX 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

May 28, 1992

To The Honorable, The City Council:

Attached is a report from the Housing Cabinet. There are a number of policy issues raised in the report that I would like to bring to the Council's attention.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Robert W. Healy".

Robert W. Healy

REPORT OF THE HOUSING CABINET TO THE CITY COUNCIL

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-The property owner must guarantee at least fifteen years of affordability.

-The promise of affordability is secured by a mortgage, which the City can call if the promise is not kept.

-The monitoring of occupancy of the units is necessary but not popular with owners.

-Conventional financing must be secured for units occupied by wealthier tenants above certain income levels.

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INCENTIVES FOR PARTICIPATION

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For a loan fund to work well, the source of money needs to be regenerative as well as

Cambridge Neighborhood Apartment Housing Services.

flexible. With \$1 million of deferred loan (grant) funds, thirty-three units could be rehabilitated if the cost were \$30,000 per unit. To rehab the 200 units studied by the Rent Control Board at this cost would take \$6 million. If these funds are loans, in order to minimize the rent increases, not only must the interest rates be low, but the term must be long. This means that very little money is available for reuse for the first several years, so the loan fund must be recapitalized year after year.

RENT CONTROL BOARD INITIATIVE FOR PRESERVATION

Some changes and proposed changes in the Rent Control Board's regulations address the issue of preservation of the City's housing stock. The Board's proposed pre-approval rent adjustment procedures are the most important example. By creating a process which enables a property owner to ascertain the scope and costs of work which the Board will approve before the owner does the work and spends the money, the Board expects to provide increased incentives for owners to engage in preservation work. However the pre-approval process does not deal with the affordability issue. In fact, by allowing necessary rehab without providing subsidized financing, the result will be to increase rents potentially to levels unaffordable to low/mod income tenants.

ACCESS FOR LOWER INCOME TENANT TO PRIVATE AFFORDABLE UNITS

Another central problem for Cambridge Housing policy, and again, one emphasized by the City Council in its 1991 policy document, is the problem of access to the existing affordable private rental stock for low income people and for families. Housing need studies done or commissioned by the City consistently demonstrate that more housing is needed for low and moderate income families in Cambridge.⁴ There are over 5,000 families on the Cambridge Housing Authority waiting list.

Much of the rent-controlled stock is affordable to low income families. The average rent-controlled rent is \$464. By conventional standards of affordability 30% of income for housing costs, this rent is affordable to a family with an income of \$16,668. Over half of all rent-controlled units have two or more bedrooms, which make them suitable for households with children. According to a recent Housing Needs Study, 28% of rent controlled units are occupied by families.

In the past, the federal Section 8 and state 707 programs, both administered through the

⁴See, e.g., Goetze, Rolf, "Cambridge Housing Challenges," 1990.

Cambridge Housing Authority (CHA), have been effective in providing access for low income families to the available rental units. Since units rented to families holding Section 8 or 707 certificates are exempt from rent control and owners receive a market-rate rent from the CHA, there is a big incentive for rent-controlled owners to rent to tenants holding certificates. Now, however, the number of available certificates has decreased sharply, and continues to decrease each year. Clearly, other ways must be found to facilitate access by Cambridge low and moderate income families to housing affordable to them.

POTENTIAL RENT CONTROL BOARD POLICY ENHANCEMENTS TO ACCESS

The Cambridge Rent Control Board is currently exploring whether allowing the merger of small units to create family-sized units would lead to an increase in utilization of the units by families. In addition, the Rent Control Board has surveyed other rent control jurisdictions to determine whether those administrations have created programs to create incentives for the rental of units affordable without subsidies to lower income tenants.

Although the survey of fourteen jurisdictions revealed that few other rent control systems have created such incentives, the Board discovered that the Santa Monica Rent Control Board has a "dedicated units" program. In exchange for renting a rent controlled unit to a low income family, the next voluntarily vacated unit receives a one-time rent adjustment for either \$400 or \$600, depending on the income, and therefore the rent level for the low income tenant. The Santa Monica program has been in operation since February, 1989. The Santa Monica Rent Control Board Administration has recently completed an evaluation of the program, and, as a result, has recommended some changes. The recommended changes include reducing the required participation period (currently ten years) to three to five years and providing additional incentives for renting to families with children. Although property owners cited the complexity of the program as a major reason for not participating, the administration did not recommend reducing the complexity, because it felt that simplification would be accomplished at the expense of many of the built-in protections against harassment and duplicity. Overall the evaluation rated the program as currently small, but with potentially positive results in the future. The Cabinet recommends that the Council's Rent Control Subcommittee consider this program, and at the request of the Subcommittee will forward additional information about this program.

CONCLUSION

The problem of access for low and moderate income tenants to affordable decent housing remains one of the most difficult problems facing any city. Rent control does not address this problem - it does not guarantee access to units for low income households nor assure existing tenants living in deteriorated buildings that their rents will not be substantially increased because of necessary rehab. Nor are the existing loan programs the City administers sufficient to address the problems. Rehabilitation of existing rent control housing with public funds requires

landlords to accept or keep tenants who meet income guidelines. Rehabilitation without these restrictions requires that other funding sources be identified. To secure access to affordable housing for tenants of low income requires real incentives to landlords beyond what has been tried here.

The Council has indicated two equally important goals in relation to the housing stock: rehabilitation of the stock and increased access to low income households. However, with limited resources, there are tradeoffs that must be made. The Council needs to continue the discussion concerning what is its top priority in housing. If access to affordable housing for low income tenants is the top priority, further realistic exploration of new funding sources for rehabilitation and innovative incentive programs for access should be explored. The City cannot do all of these things with the currently existing resources and the Council needs to decide what is its most important policy goal.

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10.



CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

May 28, 1992

To The Honorable, The City Council:

Attached is a report from the Housing Cabinet. There are a number of policy issues raised in the report that I would like to bring to the Council's attention.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Robert W. Healy".

Robert W. Healy

REPORT OF THE HOUSING CABINET TO THE CITY COUNCIL

INTRODUCTION

Since its establishment in late 1991, the Housing Cabinet has been meeting to coordinate City housing programs. These meetings have provided an important forum for discussing and resolving problems with particular properties where action is required by more than one City agency. A notable recent example is that presented by the property at 19 Market Street. The serious fire in this rent-controlled building necessitated a response from several City agencies, including the Fire Department, Emergency Management, the Department of Human Services, Inspectional Services, the Rent Control Board and the Community Development Department. The Housing Cabinet provided an efficient means of coordinating the follow-up required of each department.

In addition, discussions by the Housing Cabinet of the particulars of this fire at this property resulted in the Cabinet's conclusion that future coordination of such services can best be achieved through the articulation of a specified set of procedures to be employed by all involved City departments in multi-family building fire and other disasters which may result in the displacement of persons from their homes. The Cabinet is currently in the process of developing these guidelines.

The Housing Cabinet has also made progress in institutionalizing interagency staff coordination and resource-sharing. One important example of this is in the area of utilization by the Rent Control Board of Community Development's expertise in housing rehabilitation. Not only has informal consultation been increased, Rent Control and Community Development have planned jointly a training for hearing examiners in the area of rehab issues and costs. Furthermore, the Housing Cabinet is attempting to implement a pilot program to have the Inspectional Services Department collect information about the capital needs of units during routine housing, electrical and plumbing inspections of units in multi-family buildings.

THE CENTRAL PROBLEM OF AFFORDABLE PRESERVATION

During the course of the meetings, it has been clear that there are recurring underlying issues which should again be brought to the Council's attention. As the City Council recognized in its Cambridge Housing Plan, adopted by the Council in 1991, a central problem for Cambridge housing policy is how to encourage and facilitate the investment that an aging stock of residential rental housing requires without rendering the stock unaffordable for low and moderate income tenants.

Housing that was built 75 years ago needs major investment to stay in service.

Cambridge's rent control system provides for the capital improvements required to maintain the stock by allowing rent adjustments to cover the costs of such work. Many owners of rent controlled stock have been able to make such investments. Their buildings are in decent shape, and the rents for their units are at the high end of the rent control continuum of rents. But throughout the city there are buildings which quite obviously have not had such investment. They are in extremely deteriorated condition, and their rents are among the lowest in the same continuum. According to a 1990 study by the Rent Control Board, those units also tend to be occupied by the lowest income tenants, who, according to that study, are trapped in these units, paying all the rent they can afford for substandard housing.

If these property owners make the capital improvements needed to fix up the apartments and receive the increases allowable under rent control law, the low-income tenants will be unable to afford the resulting rent increases, and they will be displaced. If the property owners do not make capital improvements, the apartments will become uninhabitable and, again, the tenants will be displaced.

It might be helpful to look at the nature of the investment and the resulting rent increases that would occur under three different scenarios for an extremely deteriorated building. A conservative estimate of the cost for rehabilitation of each unit in such a building is \$30,000.

First, if the rehabilitation is done by a landlord under existing rent control rules with no public subsidy, the rent increase per month is \$420, not including any increase in operating expenses.

Second, if the work is funded by a deeply subsidized loan with the landlord paying only 3% interest on the \$30,000 for 15 years, the resulting increase to the tenant will be \$207 per month, again without any allowance for yearly increases in operating costs or taxes.

Third, where the rehabilitation is done with funds made available by grant or deferred loan (no payback so long as certain conditions are met), there is no increase,¹ and no danger of displacement, but the public subsidy for one six-unit building would approach \$200,000.

LOW INTEREST LOANS AND BONDS FOR REHABILITATION

The clearest way to achieve both goals, affordability and preservation of the stock, is to identify resources to capitalize a low-interest or no-interest loan fund. One potential source of capital for a loan fund which has been suggested is tax revenue; another source is tax exempt

¹Since there is no rent increase resulting from a deferred loan or grant, the cash flow from the building does not increase.

bond funding. If either of these sources were used to fund a loan pool, significant restrictions which would ensure primary public benefit for low and moderate income households would have to be included. These restrictions include:

- A significant portion of tenants in a building which was going to receive loan funds would have to be low income. Income documentation would be required.
- A property owner applying for funds might also have to qualify as low income.
- Property owners would have to guarantee affordability for the length of the bond or loan. This could be difficult to achieve if operating costs increase or additional rehab becomes necessary.

In addition, the Anti-Aid Amendment to the State Constitution, which prohibits a municipality from spending tax revenue to assist in gain for a private party could impose additional requirements for public benefit which, in turn, could create additional barriers to the use of tax dollars for the rehab of rent-controlled properties. Furthermore, if the source of the funds were to be tax-exempt bonds, not only would home rule legislation be required, the funds would be subject to the volume cap. This is a federal cap on the total amount of private activity tax-exempt bonding, that is bonding for loans to private parties who are not 501(c)(3) nonprofit corporations, which can be done in the Commonwealth. The volume cap is administered and enforced by the Executive Office of Communities and Development (EOCD). Municipalities which wish to issue bonds which fall under the volume cap must apply to EOCD for authorization. It is also possible that such bonding could be subject to a requirement for a public hearing prior to the individual loan. Even with tax exempt bond rates, which are today approximately six percent, an additional write down of interest rate would be required to ensure affordability.²

The City has experience³ with low interest loan funds involving some of the restrictions

²This memorandum does not address issues relating to the use of tax exempt bonding for affordable housing development. Tax exempt bonds for loans to 501(c)(3) nonprofit housing development agencies would not be subject to the volume cap. The levels and length of affordability typical to nonprofit development of affordable housing would generally meet public benefit requirements. There is, of course, still the issue of the necessity of additional subsidy to make the housing affordable. If the project can be developed on City-owned land, the affordability gap is lessened.

³Cambridge Community Development Department currently administers, and contracts with Just A Start to assist, the Rental Rehab loan program for multi-family rental properties. CDD also administers the Harvard HELP loan fund. In addition, CDD provides administrative support for the multi-family rental loan program and the Small Property Loan Program of

which would be required if tax revenue or tax exempt bond funds were used. This experience indicates that very few property owners are likely to participate in a rehab program with the restrictions required. Common requirements in existing low-interest loan programs are:

- The property owner must guarantee at least fifteen years of affordability.

- The promise of affordability is secured by a mortgage, which the City can call if the promise is not kept.

- The monitoring of occupancy of the units is necessary but not popular with owners.

- Conventional financing must be secured for units occupied by wealthier tenants above certain income levels.

- The loan, even at low interest rates, appears as a debt, which means that an owner who wants to sell the property will realize fewer proceeds.

Therefore, a publicly financed program for rehabilitation of privately owned housing is unlikely to attract many owners because of the restrictions imposed where municipal public funds are used.

INCENTIVES FOR PARTICIPATION

There are, however, a number of ways to provide incentives for participation of property owners in a rehab program involving low interest funds. One way to encourage owner participation even with the restrictions is to invest not the minimum amount of public funds to rehab the building, but to build in a larger loan amount which would allow the property owner to receive improved cash flow. This would result in a more expensive program with potentially fewer units being rehabbed. Another way to make a rehab program more attractive is to reduce the number of restrictions related to the loan, for instance, reduce requirements for long term affordability and occupancy of low income households. The only way to reduce restrictions which lock in public benefits would be to change the source of financing since tax exempt bonding and tax revenue financing requires public benefit. A third way might be to give grants rather than loans, so property owners' debt on a building would not be increased and risk would be minimized. The effect of this would be to eliminate any possibility of funds revolving and give the City limited security.

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Cambridge Neighborhood Apartment Housing Services.

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Some changes and proposed changes in the Rent Control Board's regulations address the issue of preservation of the City's housing stock. The Board's proposed pre-approval rent adjustment procedures are the most important example. By creating a process which enables a property owner to ascertain the scope and costs of work which the Board will approve before the owner does the work and spends the money, the Board expects to provide increased incentives for owners to engage in preservation work. However the pre-approval process does not deal with the affordability issue. In fact, by allowing necessary rehab without providing subsidized financing, the result will be to increase rents potentially to levels unaffordable to low/mod income tenants.

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CONCLUSION

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OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 5, 1992

TO: HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE

DMD
FROM: D. MARGARET DRURY, TEMPORARY CITY CLERK

SUBJECT: PUBLIC HEARING TO DISCUSS THE REPORT FROM THE HOUSING CABINET.

Please be advised that Vice Mayor Ed Cyr, Chair of the Housing and Community Development Committee has scheduled a public hearing for Wednesday, June 10, 1992 at 5:30 p. m. in the Ackermann Room.

The purpose of this hearing is to discuss the recently released report of the Housing Cabinet, and particularly the issue of rehabilitation of the most deteriorated housing stock while maintaining affordability. Said report is attached for your review.

Thank you for your cooperation in this matter.

*Sent to V.M. Cyr.
Councillor Duchay
Mayor Rhee
Councillor Gomey
Councillor Walsh*

③ Daniel Wuenschel, Executive Director
Cambridge Homey Authority
270 Green St
Cambridge MA 02139



④ Michael Haron, Executive Director
CASCAP
678 Mass Ave
Cambridge MA 02139

OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

② Gordon Gottscho, Executive Director
CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

② Just A Start
P.O. Box 310
432 Columbia Street
Cambridge MA 02141

(617) 349-4260

June 8, 1992

① Mr. Peter Daly
Homeowners Rehab, Inc.
678 Massachusetts Avenue
Cambridge, MA 02139

Dear Mr. Daly:

July 1

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You are requested to attend at this time and be heard.

Thank you for your cooperation in this matter.

*housing rehabilitation
standards and
the acquisition of
rental housing by
non profit housing
organizations*

Very truly yours,

Margaret

D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.



OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 11 1992

TO: HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE

FROM: D.M.D.
D. MARGARET DRURY, TEMPORARY CITY CLERK

SUBJECT: PUBLIC HEARING TO DISCUSS THE REPORT FROM THE HOUSING CABINET, WITH EMPHASIS ON REHAB STANDARDS

TO DISCUSS REHABILITATION AND NONPROFIT ACQUISITION OF RENTAL HOUSING STANDARDS

Please be advised that Vice Mayor Ed Cyr, Chair of the Housing and Community Development Committee has scheduled a public hearing for Wednesday, June 10, 1992 at 5:30 p. m. in the Ackermann Room.

July 1, 1992

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sent to V.M. Cyr
Councillor Duchay
Mayor Rella
Councillor Toomey
Councillor Walsh

housing rehabilitation standards
and nonprofit acquisition of
rental housing



City of Cambridge

June 8, 1992

TO: HOUSING CABINET:

ROBERT W. HEALY, CITY MANAGER
 JOSEPH CELLUCCI, INSPECTIONAL SERVICES COMMISSIONER
 JILL HEROLD, ASSISTANT CITY MANAGER FOR HUMAN SERVICES
 TERRY MORRIS, EXECUTIVE DIRECTOR OF RENT CONTROL
 ELLEN SEMONOFF, SPECIAL ASSISTANT TO THE CITY MANAGER
 SUSAN SCHLESSINGER, HOUSING DIRECTOR
 MICHAEL ROSENBERG, ASSISTANT CITY MANAGER FOR
 COMMUNITY DEVELOPMENT

FROM: ^{DMD} D. MARGARET DRURY, TEMPORARY CITY CLERK

SUBJECT: PUBLIC HEARING TO DISCUSS ~~THE REPORT FROM THE HOUSING CABINET.~~ REHAB STANDARDS AND NON PROFIT ACQUISITION OF RENTAL HOUSING

July 1

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housing rehabilitation standards
 and nonprofit acquisition of rental
 housing



OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 349-4260

June 8, 1992

To Whom It May Concern:

July 1

Please be advised that Vice Mayor Ed Cyr, Chair of the Housing and Community Development Committee has scheduled a public hearing for Wednesday, June 10, 1992 at 5:30 p. m. in the Ackermann Room, Second Floor, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts.

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rehabilitation standards and acquisition by nonprofit housing organizations of rental housing

Very truly yours,

D. Margaret Drury
D. Margaret Drury
Temporary City Clerk

DMD/dl

Enc.

✓ = Housing report sent to

East Cambridge Stabilization
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28 Winter Street
Cambridge, MA 02141

East Cambridge Planning Team
Nick Geraigery
269 Hurley Street
Cambridge, MA 02141

Wellington-Harrington Citizens
James Bentubo
5 Plymouth Street
Cambridge, MA 02141

Linden Park Neighborhood Assoc.
Debra McManus
19 Cornelius Way
Cambridge, MA 02141

Southside Neighbors
Ken May
241 Cardinal Medeiros
Cambridge, MA 02141

Area 4 Coalition
Laura Conrad
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Cambridge, MA 02139

Area 4 Crime Task Force
Eileen Keegan
c/o Human Services Department

Area 4 Planning Team
Janet Rose
16 Pine Street
Cambridge, MA 02139

Ward 5 Committee
Dan French
200 Erie Street
Cambridge, MA 02139

Hastings Square Neighborhood
Nancy Woods
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Cambridge, MA 02139

Esther Hanig
206 Mount Auburn Street
Cambridge, MA 02139

Mid Cambridge Neighborhood Assoc
John Pitkin
18 Fayette Street
Cambridge, MA 02139

Mid Cambridge Neighborhood
Conservation District Comm.
Frankie Lieberman
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Putnam Gardens Tenant Council
Bill Cunningham
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Cambridge, MA 02139

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Philip Dowds
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Cambridge, MA 02139

RCCC
Dick Stone
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Agassiz Neighborhood Council
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20 Sacramento Street
Cambridge, MA 02138

Karen Vaters
51 Crescent Street
Cambridge, MA 02138

Bellis Circle Association
Dan Geer
40 Bellis Circle
Cambridge, MA 02140

Mr. Howard D. Medwed
58 Washington Avenue
Cambridge, MA 02140

Neighborhood 10 Association
Stuart Lesser
115 Lexington Avenue
Cambridge, MA 02138

Harvard Square Defense Fund
Mrs. K. Dunn Gifford
85 Sparks Street
Cambridge, MA 02138

North Cambridge Stabilization
Don McMath
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Cambridge, MA 02140

Alan Bell
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Sue Hyde/Editor
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Cambridge Highlands Association
George Spartichino, Jr.
99 Normandy Avenue
Cambridge, MA 02138

Cathy Kelsey
Haggerty School
110 Cushing Street
Cambridge, MA 02138

Cambridge Chamber of Commerce
Robert Lewis
859 Massachusetts Avenue
Cambridge, MA 02139

Central Square Business Assoc.
Carl Barron
614 Massachusetts Avenue
Cambridge, MA 02139

Inman Square Business Assoc.
Lansing Fair
1221 Cambridge Street
Cambridge, MA 02139

Cambridge Community Services
Lynn D/Ambrose
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Cambridge Redevelopment Authority
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Cambridge Center
Cambridge, MA 02142

Harvard Planning Office
Kathy Spiegelman
Holyoke Center 912
1350 Mass. Avenue
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Michael Haran
CASCAP
356A Harvard Street
Cambridge, MA 02139

Mr. William Noble
188 Franklin Street #1
Cambridge, MA 02139 ✓

Mr. Michael Turk
Cambridge Tenants Union
1151 Massachusetts Avenue
Cambridge, MA 02138 ✓

Harvard Square Business Assoc.
Sally Alcorn
18 Brattle Street, Room 256
Cambridge, MA 02138

Business Assoc. of N. Cambridge
Karen Sqain
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Cambridge, MA 02140

Cambridge Civic Association
Brad Desch
649 Massachusetts Avenue
Cambridge, MA 02139

Cambridge Community Center
Dawn Swan
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Cambridge, MA 02139

Homeowners Rehab, Inc.
Peter Daly
678 Massachusetts Avenue Rm.203
Cambridge, MA 02139

MIT Planning Office
Ron Suduiko
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Cambridge, MA 02139

John Lowry, Jr.
22 Madison Avenue
Cambridge, MA 02140

Ms. Denise Jillson
SPOA
Co-Chair
5 Chester Street
Cambridge, MA 02140 ✓

Kathy Spiegelman
57 Orchard Street
Cambridge, MA 02140

~~Harvard Square Business Assoc.
Sheldon Cohen
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*see revised address
on last page.*

Cambridge Street Business Assoc.
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66 Otis Street
Cambridge, MA 02141

Cambridge Community Access TV
Irwin Hipsman
One Kendall Square
Cambridge, MA 02139

Margaret Fuller Neighborhood Hse
Gloria Smith
71 Cherry Street
Cambridge, MA 02139

Just-A-Start
Gordon Gottsche
320 Cambridge Street
Cambridge, MA 02141

Florrie Darwin
371 Harvard Street
Cambridge, MA 02139

Gwendolyn Rono
UNI HAB
50 Church Street
Cambridge, MA 02138

Mr. Salim Kabawat
SPOA
Co-Chair
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Cambridge, MA 02139 ✓

James Stockard
151 Oxford Street
Cambridge, MA 02140 ✓

Sr. M. Pizzotti
Sancta Maria Hospital
799 Concord Ave.
Cambridge, MA 02138

John Long
SCM, Inc.
167 Holland St.
Somerville, MA 02144

Susan Duley
Shelter, Inc.
P.O. Box 516
Cambridge, MA 02139

Thomas Hall
Shortstop, Inc.
P.O. Box 235
Somerville, MA 02143

Josie Muolo
Kennedy Neighborhood Council
73 Sixth St.
Cambridge, MA 02141

Sharon Kenny
Kennedy Neighborhood Council
158 Spring St.
Cambridge, MA 02141

Robert Bridgeman
Dreamers, Inc.
71 Cherry St.
Cambridge, MA 02139

Marty Sack
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REPORT OF THE HOUSING CABINET TO THE CITY COUNCIL

INTRODUCTION

Since its establishment in late 1991, the Housing Cabinet has been meeting to coordinate City housing programs. These meetings have provided an important forum for discussing and resolving problems with particular properties where action is required by more than one City agency. A notable recent example is that presented by the property at 19 Market Street. The serious fire in this rent-controlled building necessitated a response from several City agencies, including the Fire Department, Emergency Management, the Department of Human Services, Inspectional Services, the Rent Control Board and the Community Development Department. The Housing Cabinet provided an efficient means of coordinating the follow-up required of each department.

In addition, discussions by the Housing Cabinet of the particulars of this fire at this property resulted in the Cabinet's conclusion that future coordination of such services can best be achieved through the articulation of a specified set of procedures to be employed by all involved City departments in multi-family building fire and other disasters which may result in the displacement of persons from their homes. The Cabinet is currently in the process of developing these guidelines.

The Housing Cabinet has also made progress in institutionalizing interagency staff coordination and resource-sharing. One important example of this is in the area of utilization by the Rent Control Board of Community Development's expertise in housing rehabilitation. Not only has informal consultation been increased, Rent Control and Community Development have planned jointly a training for hearing examiners in the area of rehab issues and costs. Furthermore, the Housing Cabinet is attempting to implement a pilot program to have the Inspectional Services Department collect information about the capital needs of units during routine housing, electrical and plumbing inspections of units in multi-family buildings.

THE CENTRAL PROBLEM OF AFFORDABLE PRESERVATION

During the course of the meetings, it has been clear that there are recurring underlying issues which should again be brought to the Council's attention. As the City Council recognized in its Cambridge Housing Plan, adopted by the Council in 1991, a central problem for Cambridge housing policy is how to encourage and facilitate the investment that an aging stock of residential rental housing requires without rendering the stock unaffordable for low and moderate income tenants.

Housing that was built 75 years ago needs major investment to stay in service.

Cambridge's rent control system provides for the capital improvements required to maintain the stock by allowing rent adjustments to cover the costs of such work. Many owners of rent controlled stock have been able to make such investments. Their buildings are in decent shape, and the rents for their units are at the high end of the rent control continuum of rents. But throughout the city there are buildings which quite obviously have not had such investment. They are in extremely deteriorated condition, and their rents are among the lowest in the same continuum. According to a 1990 study by the Rent Control Board, those units also tend to be occupied by the lowest income tenants, who, according to that study, are trapped in these units, paying all the rent they can afford for substandard housing.

If these property owners make the capital improvements needed to fix up the apartments and receive the increases allowable under rent control law, the low-income tenants will be unable to afford the resulting rent increases, and they will be displaced. If the property owners do not make capital improvements, the apartments will become uninhabitable and, again, the tenants will be displaced.

It might be helpful to look at the nature of the investment and the resulting rent increases that would occur under three different scenarios for an extremely deteriorated building. A conservative estimate of the cost for rehabilitation of each unit in such a building is \$30,000.

First, if the rehabilitation is done by a landlord under existing rent control rules with no public subsidy, the rent increase per month is \$420, not including any increase in operating expenses.

Second, if the work is funded by a deeply subsidized loan with the landlord paying only 3% interest on the \$30,000 for 15 years, the resulting increase to the tenant will be \$207 per month, again without any allowance for yearly increases in operating costs or taxes.

Third, where the rehabilitation is done with funds made available by grant or deferred loan (no payback so long as certain conditions are met), there is no increase,¹ and no danger of displacement, but the public subsidy for one six-unit building would approach \$200,000.

LOW INTEREST LOANS AND BONDS FOR REHABILITATION

The clearest way to achieve both goals, affordability and preservation of the stock, is to identify resources to capitalize a low-interest or no-interest loan fund. One potential source of capital for a loan fund which has been suggested is tax revenue; another source is tax exempt

¹Since there is no rent increase resulting from a deferred loan or grant, the cash flow from the building does not increase.

bond funding. If either of these sources were used to fund a loan pool, significant restrictions which would ensure primary public benefit for low and moderate income households would have to be included. These restrictions include:

- A significant portion of tenants in a building which was going to receive loan funds would have to be low income. Income documentation would be required.
- A property owner applying for funds might also have to qualify as low income.
- Property owners would have to guarantee affordability for the length of the bond or loan. This could be difficult to achieve if operating costs increase or additional rehab becomes necessary.

In addition, the Anti-Aid Amendment to the State Constitution, which prohibits a municipality from spending tax revenue to assist in gain for a private party could impose additional requirements for public benefit which, in turn, could create additional barriers to the use of tax dollars for the rehab of rent-controlled properties. Furthermore, if the source of the funds were to be tax-exempt bonds, not only would home rule legislation be required, the funds would be subject to the volume cap. This is a federal cap on the total amount of private activity tax-exempt bonding, that is bonding for loans to private parties who are not 501(c)(3) nonprofit corporations, which can be done in the Commonwealth. The volume cap is administered and enforced by the Executive Office of Communities and Development (EOCD). Municipalities which wish to issue bonds which fall under the volume cap must apply to EOCD for authorization. It is also possible that such bonding could be subject to a requirement for a public hearing prior to the individual loan. Even with tax exempt bond rates, which are today approximately six percent, an additional write down of interest rate would be required to ensure affordability.²

The City has experience³ with low interest loan funds involving some of the restrictions

²This memorandum does not address issues relating to the use of tax exempt bonding for affordable housing development. Tax exempt bonds for loans to 501(c)(3) nonprofit housing development agencies would not be subject to the volume cap. The levels and length of affordability typical to nonprofit development of affordable housing would generally meet public benefit requirements. There is, of course, still the issue of the necessity of additional subsidy to make the housing affordable. If the project can be developed on City-owned land, the affordability gap is lessened.

³Cambridge Community Development Department currently administers, and contracts with Just A Start to assist, the Rental Rehab loan program for multi-family rental properties. CDD also administers the Harvard HELP loan fund. In addition, CDD provides administrative support for the multi-family rental loan program and the Small Property Loan Program of

which would be required if tax revenue or tax exempt bond funds were used. This experience indicates that very few property owners are likely to participate in a rehab program with the restrictions required. Common requirements in existing low-interest loan programs are:

- The property owner must guarantee at least fifteen years of affordability.
- The promise of affordability is secured by a mortgage, which the City can call if the promise is not kept.
- The monitoring of occupancy of the units is necessary but not popular with owners.
- Conventional financing must be secured for units occupied by wealthier tenants above certain income levels.
- The loan, even at low interest rates, appears as a debt, which means that an owner who wants to sell the property will realize fewer proceeds.

Therefore, a publicly financed program for rehabilitation of privately owned housing is unlikely to attract many owners because of the restrictions imposed where municipal public funds are used.

INCENTIVES FOR PARTICIPATION

There are, however, a number of ways to provide incentives for participation of property owners in a rehab program involving low interest funds. One way to encourage owner participation even with the restrictions is to invest not the minimum amount of public funds to rehab the building, but to build in a larger loan amount which would allow the property owner to receive improved cash flow. This would result in a more expensive program with potentially fewer units being rehabbed. Another way to make a rehab program more attractive is to reduce the number of restrictions related to the loan, for instance, reduce requirements for long term affordability and occupancy of low income households. The only way to reduce restrictions which lock in public benefits would be to change the source of financing since tax exempt bonding and tax revenue financing requires public benefit. A third way might be to give grants rather than loans, so property owners' debt on a building would not be increased and risk would be minimized. The effect of this would be to eliminate any possibility of funds revolving and give the City limited security.

For a loan fund to work well, the source of money needs to be regenerative as well as

Cambridge Neighborhood Apartment Housing Services.

flexible. With \$1 million of deferred loan (grant) funds, thirty-three units could be rehabilitated if the cost were \$30,000 per unit. To rehab the 200 units studied by the Rent Control Board at this cost would take \$6 million. If these funds are loans, in order to minimize the rent increases, not only must the interest rates be low, but the term must be long. This means that very little money is available for reuse for the first several years, so the loan fund must be recapitalized year after year.

RENT CONTROL BOARD INITIATIVE FOR PRESERVATION

Some changes and proposed changes in the Rent Control Board's regulations address the issue of preservation of the City's housing stock. The Board's proposed pre-approval rent adjustment procedures are the most important example. By creating a process which enables a property owner to ascertain the scope and costs of work which the Board will approve before the owner does the work and spends the money, the Board expects to provide increased incentives for owners to engage in preservation work. However the pre-approval process does not deal with the affordability issue. In fact, by allowing necessary rehab without providing subsidized financing, the result will be to increase rents potentially to levels unaffordable to low/mod income tenants.

ACCESS FOR LOWER INCOME TENANT TO PRIVATE AFFORDABLE UNITS

Another central problem for Cambridge Housing policy, and again, one emphasized by the City Council in its 1991 policy document, is the problem of access to the existing affordable private rental stock for low income people and for families. Housing need studies done or commissioned by the City consistently demonstrate that more housing is needed for low and moderate income families in Cambridge.⁴ There are over 5,000 families on the Cambridge Housing Authority waiting list.

Much of the rent-controlled stock is affordable to low income families. The average rent-controlled rent is \$464. By conventional standards of affordability 30% of income for housing costs, this rent is affordable to a family with an income of \$16,668. Over half of all rent-controlled units have two or more bedrooms, which make them suitable for households with children. According to a recent Housing Needs Study, 28% of rent controlled units are occupied by families.

In the past, the federal Section 8 and state 707 programs, both administered through the

⁴See, e.g., Goetze, Rolf, "Cambridge Housing Challenges," 1990.

Cambridge Housing Authority (CHA), have been effective in providing access for low income families to the available rental units. Since units rented to families holding Section 8 or 707 certificates are exempt from rent control and owners receive a market-rate rent from the CHA, there is a big incentive for rent-controlled owners to rent to tenants holding certificates. Now, however, the number of available certificates has decreased sharply, and continues to decrease each year. Clearly, other ways must be found to facilitate access by Cambridge low and moderate income families to housing affordable to them.

POTENTIAL RENT CONTROL BOARD POLICY ENHANCEMENTS TO ACCESS

The Cambridge Rent Control Board is currently exploring whether allowing the merger of small units to create family-sized units would lead to an increase in utilization of the units by families. In addition, the Rent Control Board has surveyed other rent control jurisdictions to determine whether those administrations have created programs to create incentives for the rental of units affordable without subsidies to lower income tenants.

Although the survey of fourteen jurisdictions revealed that few other rent control systems have created such incentives, the Board discovered that the Santa Monica Rent Control Board has a "dedicated units" program. In exchange for renting a rent controlled unit to a low income family, the next voluntarily vacated unit receives a one-time rent adjustment for either \$400 or \$600, depending on the income, and therefore the rent level for the low income tenant. The Santa Monica program has been in operation since February, 1989. The Santa Monica Rent Control Board Administration has recently completed an evaluation of the program, and, as a result, has recommended some changes. The recommended changes include reducing the required participation period (currently ten years) to three to five years and providing additional incentives for renting to families with children. Although property owners cited the complexity of the program as a major reason for not participating, the administration did not recommend reducing the complexity, because it felt that simplification would be accomplished at the expense of many of the built-in protections against harassment and duplicity. Overall the evaluation rated the program as currently small, but with potentially positive results in the future. The Cabinet recommends that the Council's Rent Control Subcommittee consider this program, and at the request of the Subcommittee will forward additional information about this program.

CONCLUSION

The problem of access for low and moderate income tenants to affordable decent housing remains one of the most difficult problems facing any city. Rent control does not address this problem - it does not guarantee access to units for low income households nor assure existing tenants living in deteriorated buildings that their rents will not be substantially increased because of necessary rehab. Nor are the existing loan programs the City administers sufficient to address the problems. Rehabilitation of existing rent control housing with public funds requires

landlords to accept or keep tenants who meet income guidelines. Rehabilitation without these restrictions requires that other funding sources be identified. To secure access to affordable housing for tenants of low income requires real incentives to landlords beyond what has been tried here.

The Council has indicated two equally important goals in relation to the housing stock: rehabilitation of the stock and increased access to low income households. However, with limited resources, there are tradeoffs that must be made. The Council needs to continue the discussion concerning what is its top priority in housing. If access to affordable housing for low income tenants is the top priority, further realistic exploration of new funding sources for rehabilitation and innovative incentive programs for access should be explored. The City cannot do all of these things with the currently existing resources and the Council needs to decide what is its most important policy goal.

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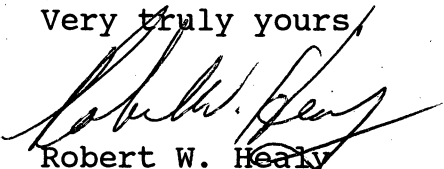
RICHARD C. ROSSI
Deputy City Manager

May 28, 1992

To The Honorable, The City Council:

Attached is a report from the Housing Cabinet. There are a number of policy issues raised in the report that I would like to bring to the Council's attention.

Very truly yours,



Robert W. Healy

Consent Agenda # 10 S-631
Report from the Housing Cabinet.

In City Council,

June 1, 1992

*Referred to the
Committee on Housing &
Community Development
Copy sent to Housing &
Community Development
Committee 6/3/92 (d)*