

October 1, 2009

Tina Brooks, Undersecretary  
Massachusetts Department of Housing and Community Development  
100 Cambridge Street, Suite 300  
Boston, MA 02114

Dear Undersecretary Brooks:

Thank you for the opportunity to comment on DHCD's housing and community development priorities and strategies over the next five years, prior to DHCD's drafting of the 5-year HUD Consolidated Plan. As you know from our prior conversations and correspondence, MACDC is the policy and capacity building arm of the community development movement in Massachusetts, and represents the approximately 60 CDCs and 20 other nonprofit organizations statewide involved in community-based development. We look on this as an opportunity to share thoughts on how the state can effectively respond to the changing community development environment, both in light of the current economic crisis and in light of longer term shifts in the economic, policy and demographic context.

Much of our thinking on these subjects is fashioned by the discussions taking place in the Massachusetts Community Development Innovation Forum which we cosponsor with LISC. DHCD has been an active supporter and participant in this process as we try to assess what is working and what needs to change about the way each of us in the community development field conducts our work and more importantly how we all interact with each other.

In DHCD's outreach for the Con Plan Regional Public Meetings, DHCD has posed three questions; we would like to answer them in reverse order since the key question you pose (concerning Housing and Community Development Priorities) springs in part from the other two questions: first, what are the recent changes in the housing and community development landscape since 2005, and second, how effective are DHCD and other State agencies in working with local communities on housing and community development issues.

In terms of assessing the effectiveness of DHCD and other State agencies, MACDC recognizes how DHCD (and other agencies) have worked diligently and tirelessly with nonprofit housing project sponsors on addressing impediments to project success, particularly as the housing market, the tax credit investor market, and the State fiscal situation have gone through such turmoil in recent years. DHCD's quick acknowledgment of and creative response to addressing deteriorating conditions in the housing and credit markets has allowed Massachusetts' nonprofits and others to continue to create and preserve affordable housing, when a less effective and timely response would have had disastrous consequences for the Commonwealth's low income families who are so dependent on the continued delivery of housing assistance.

We believe that there are ways that DHCD and other State agencies can improve their effectiveness in responding to the crises we face; by utilizing the expertise of the nonprofit sector early in the

process of planning a response, by more fully supporting the capacity of the nonprofit community development sector, and by improved coordination among the various state agencies tasked with addressing crises as they arise. On balance, we feel the citizens of the Commonwealth are well served by the capable, committed Staff in the Patrick Administration and by DHCD in particular, and look forward to continuing our partnership.

The balance of these comments are focused on: 1) recent changes in the community development landscape; and 2) the key priorities for housing and community development we would recommend for DHCD and other State agencies involved in supporting community development.

### **Recent Changes in the Housing and Community Development Landscape since 2005:**

#### Affordable Homeownership:

1. The foreclosure crisis has cost homeowners and renters their homes and inflicted physical and economic damage in communities statewide, with the greatest impact on disinvested neighborhoods in Boston and in many of the Commonwealth's Gateway Cities.
2. The homeownership market has collapsed, particularly in weaker market areas statewide, resulting in an inventory of unsold homes and condos, with resultant negative economic impacts on neighborhoods and negative financial impacts on project sponsors. The foreclosure crisis and the collapse of the homeownership market have served to reinforce each other.
3. Because of the market decline, the unsold units and the loss of some of the public dollars invested in affordable homeownership, the Commonwealth has ceased providing subsidy funding to homeownership projects except in the strongest markets.
4. Mortgage lending for homebuyers has been curtailed for borrowers with credit problems, and for condominiums located in projects with a significant number of unsold units.

Overall, these four factors (the foreclosure crisis, the collapse of the homeownership market, the withdrawal of the State from funding affordable homeownership, and the curtailment of mortgage lending) combine to create severe hardships for homeowners and renters, large swaths of vacant properties in many neighborhoods, and financial turmoil for many nonprofit sponsors of affordable housing.

#### Affordable Rental Housing:

1. The Low Income Housing Tax Credit (LIHTC) Program has suffered from precipitous declines in private investment and in the equity channeled to tax credit projects, resulting in significant cash shortfalls, onerous investor requirements, and particular investor reluctance to fund "high social impact" projects.
2. The affordable housing community (both nonprofit and for profit) have come together on the need for short-term infusions of federal dollars to meet the shortfalls in tax credit investment. Considerable disagreement exists on the long-term projections for the tax credit

market, and the resultant implications for federal policy and the long-term availability of federal dollars to fill the void.

3. State budget shortfalls have exacerbated the shortfall of public funding for the creation and preservation of affordable housing, particularly on the availability and amount of rental assistance available to assist very low income households that are at risk of homelessness.
4. The existing stock of affordable rental housing is at risk due to expiring use restrictions and Section 8 contracts.

Overall, these four factors (reductions in investor capital, uncertainties over long-term availability of private investment capital or the public dollars needed to supplement them, State budget shortfalls and the expiring use problem) have resulted in stalled projects, significant project cost increases, financial difficulties for nonprofit sponsors, and actual and threatened displacement of renters in expiring use projects.

#### Nonprofit Delivery System for Affordable Housing and Community Development:

1. CDCs and other community-based nonprofit organizations are struggling to maintain their operations and capacity due to housing program funding shortfalls, reductions in philanthropic support, and the overall economic downturn, at a time when demand for their programs and services are rising.
2. Community-based nonprofits are struggling to maintain these programs with less regular and predictable public capacity funding support. Despite State efforts to creatively provide capacity funding in specified program areas (housing, small business), the nonprofits' ability to maintain stable capacity has been stretched.
3. Because affordable housing project financing is structured to provide the minimum necessary amount of capital subsidy (and allow for the maximum possible amount of supportable debt), the annual cash flow generated by affordable housing projects does not allow nonprofit sponsors to significantly improve their cash position and net worth. Unless and until affordable housing projects are structured to provide more robust cash flow to nonprofit sponsors, these sponsors remain highly dependent on developer fees. Due to their reliance on development fees from real estate projects to support their programs, the impact of slowed and stalled projects will result in cash shortfalls for nonprofit housing sponsors in the years that follow.
4. Notwithstanding these challenges, many CDCs and CBOs continue to make remarkable progress in their neighborhoods – buying foreclosed properties, counseling homeowners and preventing displacement, pursuing long term TOD and mixed used development projects that have the potential to transform neighborhoods and creatively responding to the diverse needs of their communities. The remarkable durability, creativity and effectiveness of so many CDCs during these difficult times underscores the importance of building on these strengths to ensure the continued vitality of the field and the long term health of our communities.

Overall, these factors (operating funding shortfall, less predictable public support, and heavy reliance on developer fees that suffer as real estate projects are slowed or stalled) have posed serious challenges to community-based nonprofit organizations as they struggle to maintain their programs and capacity, in the face of declining funding. And yet, as noted above, CDCs and other CBOs are overcoming these financial challenges. In 2008 alone, CDCs statewide collectively built or preserved almost 1,300 homes, created or preserved almost 1,500 job opportunities, served over 32,000 families statewide with programs and services, and attracted almost \$250 million in public and private investment. Furthermore, CDCs and other CBOs are exploring collaboration strategies (with other nonprofits, for profits, and service providers) that will enhance the impact and sustainability of the projects they develop. We seek greater public investment so we can build on our strengths, address our weaknesses and have an even greater impact in the coming years.

### **Housing and Community Development Priorities:**

#### Recommendations for the programs directly covered by the Consolidated Plan:

1. DHCD should develop criteria that prioritize HOME and other funding for affordable housing projects sponsored by CDCs and CBOs, when these CBOs can demonstrate additional community benefits that result from their community-based approach to development. Specifically, if nonprofit sponsors can demonstrate that the development they sponsor is fundamentally more reflective of community priorities, more successful in engaging community residents, more effective in addressing comprehensive community revitalization needs, or more effective in leveraging other dollars, then the scoring criteria for funding should reflect this additional value provided by CBOs.
2. To better support the CDCs and other CBOs that demonstrate their importance in shepherding and stewarding long term community development, DHCD should use a portion of its HOME Allocation, as allowed by HUD, to provide operating support to CHDOs. If other demands on HOME resources make it difficult for DHCD to dedicate the allowed 5% of HOME proceeds to CHDO operating support in the first year, DHCD should provide itself the flexibility in the 5-year Consolidated Plan to do this in future years, by explicitly acknowledging the possibility of DHCD providing HOME dollars for CHDO operating support, perhaps as a way to leverage private support for these organizations. DHCD can use CHDO funding to advance the field in strategic ways. For example, such funding can help existing groups expand their service area to more communities or to encourage collaboration among existing organizations. It can strengthen key strategic partners on whom the state relies for housing production in certain areas.
3. DHCD should continue to prioritize using CDBG to address the broad array of community development projects in non-entitlement communities, such as community planning, housing rehabilitation, homebuyer counseling, community facilities and infrastructure, and social services. Particular priority for CDBG funding should go to CDCs and other CBOs that work collaboratively with municipalities on multi-town programs that better and more efficiently serve entire regions.

4. DHCD should continue to prioritize using CDBG to provide grants to communities for a wide variety of small-to-medium sized economic development projects, including support for small businesses, through the Economic Development Fund (EDF).
5. DHCD should use the HOME Program and other funding resources at its disposal to stabilize the housing finance system for affordable rental housing, so that those projects with high social impact (deep levels of affordability, coordination of housing with services, green development near transit, etc.), that are frequently developed by nonprofits, can continue to be supported and incentivized. For the State, this means continuing to work diligently with nonprofit sponsors on securing the necessary resources for deals at risk, and advocating on the federal level for the continuation of federal resources (such as Exchange Funds and TCAP) in sufficient amount and for sufficient duration so that development of these projects can proceed without interruption.
6. DHCD should also focus its resources on supporting projects in the 10-25 unit range (projects too small for tax credits that nonetheless provide important affordable housing, but are hard to finance) in order to support appropriate scale development in communities across the Commonwealth.
7. DHCD should use the HOME Program and other funding resources at its disposal to strengthen and rebuild affordable homeownership programs and thereby stabilize communities. The State can play a significant role in this by: helping to prevent foreclosures and reducing the supply of foreclosed and vacant homes, providing additional resources to help nonprofit sponsors sell unsold homes and condos, easing long-term resale restrictions in weak market areas, and providing education and support for new homebuyers. DHCD should resume making awards for new affordable homeownership projects, if the projects are on a modest scale, can be demonstrated to be supported by the market, and require homebuyers to successfully completed a certified first time homebuyer training. We are confident that during the five year period of this plan, the homeownership market will rebound sufficiently to justify such development.

Recommendations for Meeting the Commonwealth's Housing and Community Development Needs Through the Use of Other State Resources:

1. Focused resources on coordinated action among State and local governments, lenders and the nonprofit sector are needed to prevent foreclosures, prevent displacement when foreclosures occur, and address foreclosure's impact on neighborhoods.
2. The State should continue its efforts to support the revitalization of Gateway Cities. First, funding should be provided to implement some of the plans developed with funding from the State's Gateway Plus Action Grants. Second, given the concentration of foreclosed and abandoned properties in Gateway Cities neighborhoods, DHCD's use of HOME funding to supplement federal NSP funding to support rehabilitation of foreclosed properties should be concentrated in Gateway Cities. Third, DHCD should ease long-term resale restrictions for homeownership projects in weak market areas, particularly those located in Gateway Cities.

3. State funding for affordable housing, whether through the capital or operating budget, needs to be increased. In order to provide secure housing for very low income households and to prevent homelessness, State rental assistance needs to be increased. Additionally, the Administration should establish its Capital Budget for housing early in the fiscal year, so that DHCD and all prospective applicants can plan effectively for their affordable housing projects.
4. Affordable housing per unit subsidy amounts should be sufficient so that projects deemed worthy of State support have sufficient resources to serve the intended population, provide for a reasonable developer overhead and fee, and in the case of rehabilitation, provide sufficient funds for rehab so that the buildings can go for a reasonably long period of time without incurring significant capital needs. Furthermore, when these small to medium-sized projects are located in communities that are not entitlement communities for HOME or CDBG, DHCD should be willing to more flexibly apply per unit subsidy cap limits. Finally, DHCD should consider structuring projects so that they create a more sustainable cash flow stream during operations, to facilitate strong asset management and reduce pressure on nonprofits to create a continuous stream of developer fees.
5. The State needs to pass legislation to address the burgeoning expiring use problem, and preserve the stock of affordable rental housing.
6. The State should continue to utilize State funding to support the provision of small business technical assistance.

MACDC looks forward to the opportunity to continue to work cooperatively with DHCD and other State agency to address the Commonwealth's critical affordable housing and community development needs. If you have any questions or want additional information, feel free to contact me at 617-426-0303, ext. 22 or at [joe@macdc.org](mailto:joe@macdc.org), or by contacting MACDC's Senior Policy Advocate Don Bianchi at extension 26 at the above number, or via e-mail at [donb@macdc.org](mailto:donb@macdc.org).

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Kriesberg". The signature is fluid and cursive, with the first name "Joe" clearly legible and the last name "Kriesberg" written in a more stylized, connected script.

Joe Kriesberg  
President and CEO

Cc: Kate Racer, DHCD  
Sandra Hawes, DHCD  
Alana Murphy, DHCD