

# Housing on Hold:

## The State Freeze on Funding for New Affordable Homes



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**MACDC**

MASSACHUSETTS ASSOCIATION OF COMMUNITY DEVELOPMENT CORPORATIONS

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### Executive Summary

In February 2005, the Romney Administration decided to withhold state and federal funding for the construction of new state-assisted homes being developed for sale to first time homebuyers.<sup>1</sup> This decision has put a freeze on the development of such homes by the state's community development corporations (CDCs) and other developers of affordable housing in the state. In total, 19 CDC projects in 10 communities totaling 286 units are now at risk as a result of the Administration's actions. The State and federal housing funds being withheld by the Romney Administration are used to make the homes affordable to moderate income families. Most of these homes would be affordable to working families making approximately \$40,000 to \$60,000 per year.

The result of the Romney Administration's action is that homeownership projects that need state funding to be built have ground to a standstill. In a significant change from prior years, the Administration has chosen to delay releasing the funds necessary to move forward until the Legislature passed the FY 2006 State Operating Budget, even though there is absolutely no legal or policy rationale for such a delay. Projects that have already been awarded state funds and are ready to start construction cannot obtain the funds to acquire properties and construct or renovate the homes. Other projects, ready to proceed, cannot even apply for funding. Some of the delays cause increasing costs while other projects are at risk of being lost altogether if permits expire or sellers tire of waiting for CDCs to obtain the funds to buy the properties.

The funding problems are likely to continue under current Administration policies. First, the Administration plans to have a single homeownership funding competition for state and federal housing funds in September or October, 2005 while delaying assurance that the funding will be in place until July 2006. This creates unnecessary uncertainty and could force developers to pay extra carrying costs for several months. Second, the Administration is apparently considering cuts in the funding levels for these programs – a stunning possibility in light of the current housing crisis.

MACDC is calling on the Romney Administration to take immediate action to end this funding logjam. The Romney Administration should:

- Immediately release funds to those projects that have already received award letters.
- Immediately re-open the application process so developers can apply for funding for new projects, and review these applications with decisions in no more than 90 days.
- Set the funding levels for the state's two most important housing programs, the Affordable Housing Trust Fund and the Housing Stabilization Fund at \$20 million each in FY 2006, and steadily increase those levels in the years to come to meet the demand for new housing. The legislature recently passed legislation providing \$100 million in new authorization for both programs. Governor Romney has total discretion on the annual funding level for these programs.
- Beginning next year, set the annual funding levels for these programs early enough in the calendar year to avoid unnecessary and costly delays.

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<sup>1</sup> The state uses two state programs and one federal funding program to support homeownership projects: The state Affordable Housing Trust Fund (the "Trust Fund"), the state Housing Stabilization Fund ("HSF") and the federal HOME Program ("HOME"). The Trust Fund and HSF rely on State sources of funding.

## Background

### Massachusetts Lacks Sufficient Homes that are Affordable to Moderate Income Families

As anyone who has been looking to buy a house or reads the newspaper is aware, home prices in Boston and across the state have increased dramatically in recent years, and are well beyond the reach of families of modest means.

According to the Massachusetts Association of Realtors, the statewide median selling price for a detached single family home increased 6% in just one year to \$359,900 in May, 2005. In Boston, according to Mayor Menino's Leading the Way II Report, between 1998 and 2003, the median home sales prices increased 109%; whereas in 1998 a family needed an income of \$55,000 to afford a median priced home; in 2003 the income required rose to \$105,300. Moreover, Massachusetts lags behind most other states in the production of new housing – especially housing that is affordable. It is no coincidence, given these high and rapidly escalating prices, that Boston's population dropped 8% between 2000 and 2003, and that Massachusetts was the only state to experience a net population loss last year. For those families and individuals who do stay in Massachusetts, it is very difficult to buy a home, especially for first time homebuyers. This is even true for people with fairly good paying jobs, like teachers, nurses and firefighters.

### CDCs Are Responding to the Housing Crisis

Community Development Corporations are community controlled non profit organizations that seek to build inclusive and vibrant communities across the state. In November 2002, Massachusetts CDCs launched the CDC GOALS Campaign, Growing Opportunities, Assets and Leaders across the Commonwealth. A key goal of this campaign was to address the housing crisis and during the first two years of this effort (2003/04) CDCs built or preserved 2,674 homes. These homes include both rental and homeownership units and include both new construction projects and the renovation of existing housing. Of these 2,674 homes, CDCs built 357 new homes that were sold to moderate income first time homebuyers. CDCs used grant and low interest loan proceeds from public sector programs at the federal, state and/or local level to ensure that the homes were priced at levels affordable to families making generally between \$40,000 and \$60,000.

Owning a home in today's market is out of reach for most households in this income range. CDCs are creating opportunities these families would likely not have had otherwise. Gretchen Archambault and her young daughter moved six times in four years on Cape Cod until she was able to purchase her first home, one of four new homeownership units created by the Lower Cape Cod CDC in Wellfleet. "Without the support of the CDC and the wonderful housing committees, we would have had to move off the Cape and lord knows where we would have



gone,” she said after moving into her home. "It's just an indescribable feeling after you've had to move so many times in so many years to live in one spot."

Entire neighborhoods benefit from the creation and preservation of housing developed by CDCs, which transform vacant lots or abandoned or unsightly buildings into attractive buildings designed with input from the surrounding community. In the Summer Street homeownership project (pictured above), Lawrence Community Works CDC transformed an entire street of vacant lots into four new two-family homes and a playground in Lawrence’s North Common Neighborhood. The homes were sold to low and moderate income first time home buyers. Urban Edge, a CDC based in Jamaica Plain and Roxbury, redeveloped an old Victorian house (“before and after” pictured below) into five affordable homeownership units in Roxbury. Developments like these have given CDCs across the state a proven track record for building quality attractive housing and strengthening communities.



### **The Current Situation**

#### **The State Constructs a Crisis Instead of Homes by Refusing to Release Funds for Affordable Homeownership**

Affordable homeownership projects statewide rely on a variety of sources, including loans from banks, funding from local governments and from the federal government. However, in order to build and renovate homes for sale to low-and moderate-income first-time homebuyers, it is critical to have flexible and reliable sources of funding from the state as well. These funds, which are administered by the state’s Department of Housing and Community Development (DHCD), are used to fill the gap between the cost to build new homes and the amount that moderate income families can afford to pay. In exchange for the lower cost home, the homebuyer agrees that when he or she sells the home s/he will do so at a price that is also affordable to another moderate income household. Therefore, the homeowner is allowed to build some equity, but the public subsidy is preserved and passed along to a new family.

As mentioned previously, DHCD uses two state programs and one federal funding program to support these homeownership projects: The state Affordable Housing Trust Fund (the “Trust Fund”), the state Housing Stabilization Fund (“HSF”) and the federal HOME Program

(“HOME”). The Trust Fund and HSF rely on State sources of funding. While HOME relies on federal funds, these are administered by the State and allocated in conjunction with State-funded sources. See Appendix A for a brief synopsis of these three funding programs.

The Trust Fund and HSF are currently funded through the sale of bonds by the State, under the control of the State’s Office of Administration and Finance (A&F). Once the Massachusetts Legislature authorizes funds for these programs, the Administration can issue bonds up to the amount that has been authorized by the Legislature. At the same time, the Governor can refuse to issue those bonds. Governor Romney has total discretion regarding how much, if any, of this bond funding will actually be used in a given year. Each year, the Governor outlines the amount of bond spending for each department in a Capital Budget for the Commonwealth. The total amount of bond funding for all state departments equals approximately \$1.25 billion.

The Romney Administration has made decisions which individually and collectively have the effect of putting a hold on the development of affordable homeownership opportunities, including:

1. The Administration’s decision to not release the funds necessary to go forward with projects that have already received a funding award;
2. The Administration’s decision not to review funding applications since last February;
3. The Administration’s decision not to provide sufficient funding from the Trust Fund and HSF program, two successful programs, to address the housing crisis; and
4. The Administration’s decision to not establish the spending levels for these funding programs in a timely manner which will allow projects to plan responsibly.

#### Homeownership Projects are Being Delayed at Various Stages

The Romney Administration’s decisions to hold back funding have had a dramatic effect on projects at four stages of development. Information on specific CDC-sponsored projects that have been delayed or otherwise put at risk is in Appendix B: Massachusetts CDC Homeownership Projects on Hold.

##### 1. Projects with award letters

The Department of Housing and Community Development (DHCD) has already reviewed and approved funding for five (5) projects sponsored by CDCs, which collectively contain **43 units, including 36 units affordable to low-and moderate-income homebuyers**. These projects are ready to proceed with construction once the state funds are made available.

The amounts currently authorized by the Legislature for the Trust Fund and HSF are sufficient to allow the Administration to provide the funds it has already committed (awarded) for homeownership projects. Yet these projects are being held up.

2. Projects that have applied for state funding but not have not received a decision on their application

The Administration has refused to review and award funds to projects sponsored by CDCs even though full funding applications have been invited by the State, and submitted by the CDCs. **To date, the state has refused to even review those applications and reach a decision on their merits.** The process of review has simply stopped. **CDCs have submitted applications for 2 projects totaling 29 units, all affordable.**

3. Projects that are ready to apply for state funding but told that they cannot

The Administration has, since February, 2005, stopped accepting applications for homeownership projects altogether. **Statewide, CDCs are waiting to submit funding applications for 12 projects totaling 214 units, including 151 affordable units.**

4. Projects being planned and project opportunities being considered that may never be developed due to funding uncertainties and delays.

There are other potential projects that CDCs would like to develop which would result in hundreds of additional affordable homes, but the CDCs are reluctant to begin the development process until the funding situation is more consistent and predictable. Unfortunately, the Administration is now indicating that it might actually reduce funding for AHTF and HSF in the future depending on the demand for the programs. In other words, after systematically discouraging new projects, the Administration is poised to use a lack of projects as justification for cutting the programs. In addition to uncertain funding levels for FY 2006, the Administration has also indicated that the FY 2007 funding levels for these programs will not be set until next summer. This means that the delays experienced this year are scheduled to be repeated again in 2006. The Governor is sending a chilling message to developers of affordable housing- stop developing new projects.

#### The Administration's Actions are Putting Projects At Risk and Driving Up Costs

In February of 2005, the Romney Administration announced that it was putting a hold on all homeownership projects until it finalized its FY 2006 Capital Budget. It further announced that the Capital Budget would not be established until after the state's FY 2006 Operating Budget was finalized in July 2005. This was a dramatic departure from past practice in which Romney and previous governors announced the Capital Budget in late winter or early spring. The Administration also indicated that it would not finalize the housing capital budget until the Legislature passed the Housing Bond Bill that was pending at that time (it has since passed the

House and Senate in late July, and is awaiting the Governor's signature. The Bill authorizes \$100 million for the Affordable Housing Trust Fund and \$100 million for HSF). Without a Capital Budget in place, DHCD has been unable to distribute funds to new projects. While the Bond Bill has now passed the legislature, the Governor did little to help win its passage. For months the Administration refused to publicly support the bill and later on offered only passive support for the legislation. There was certainly no concerted effort by the Administration to secure the authorization. Moreover, even without the new bond bill, the Administration could have released more funding using prior authorizations that were not fully depleted.

An additional impact of the Administration's delay in releasing the detailed capital budget is to eliminate an important feature of the homeownership funding process: DHCD's ability to accept funding applications on a "rolling basis". Under this process, a sponsor could submit an application for a project when the project was ready to proceed. With the holdback in funding availability, DHCD has been forced to switch to competitive funding rounds for affordable homeownership projects, so this flexibility has been lost.

DHCD announced it would hold a homeownership funding round in the fall of 2005, once the housing bond bill is passed. Because of the backlog in applications caused by the State's suspension of its homeownership funding programs, it is likely that the competition for available funds will be particularly fierce, resulting in more worthy projects being declined.

Because of this anticipated intense competition, DHCD has stressed that applicants will need to score very high in terms of their readiness to move forward, for example by having zoning permits and other funding commitments in place prior to applying to the State for funds. However, with the Administration's announced intention to delay the release of the Fiscal Year 2007 capital budget until July of 2006 will likely mean a repeat of this year's delays. CDCs which submit applications for projects in September and October of 2005 may not be able to receive any State funds until the following July or later, and yet these projects will be judged in large part by how "ready" they are to begin construction when they submit their funding applications in the fall. A more fitting description of a "Catch-22" situation is hard to imagine.

By withholding the State funds it has committed, the Romney Administration is:

- Putting the development of these affordable homeownership units at risk, as CDC sponsors' purchase agreements with property sellers expire and zoning permits awarded to projects expire;
- Undermining the willingness of the private lending community to support these projects now and in the future, as the consistency and predictability of the State funds which are projected to repay the private funds are called into question; and
- Increasing the development costs of the project, due to increased interest, real estate taxes and insurance costs as CDCs need to hold properties for longer periods before developing them. This increase in costs can impede the project's ability to serve homebuyers of modest means.

### Recommendations: The Steps the Romney Administration Should Take to Address the Crisis

The bad news is that the current crisis in State funding for affordable homeownership projects is worsening the larger affordable housing crisis. The good news is that the crisis in State funding can be addressed through timely action on the part of the Romney Administration.

The Administration should take the following steps expeditiously to address this crisis:

- Immediately release funds to those projects that have already received award letters.
- Immediately re-open the application process so developers can apply for funding for new projects, and review these applications with decisions in no more than 90 days.
- Set the funding levels for the Affordable Housing Trust Fund and the Housing Stabilization Fund at \$20 million each in FY 2006, and steadily increase those levels in the years to come to meet the demand for new housing. The legislature recently passed legislation providing \$100 million in new authorization for both programs. Romney has total discretion on the annual funding level for these programs.
- Beginning next year, set the annual funding levels for these programs early enough in the calendar year to avoid unnecessary and costly delays.



## **Appendix A**

### Information on State Housing Funding Programs

The State's Affordable Housing Trust Fund (AHTF) is administered by MassHousing and is designed to create or preserve affordable housing, rental and homeownership, in MA for households whose incomes do not exceed 110% of median income, as determined by the U.S. Department of Housing and Urban Development (HUD). Current funding is generally limited to \$50,000 per unit.

This Housing Stabilization Fund (HSF), administered by DHCD, can be used for the production and/or preservation of affordable housing, including both homeownership and rental units. All HSF-assisted units must be preserved for households with incomes at or below 80% of area median income for 40 years, and for households with incomes at or below 100% of median income for an additional 10 years. Current funding is generally limited to \$50,000 per HSF-assisted unit (\$65,000 per unit outside communities which receive local HOME funding directly from the federal government).

The State HOME Program, also administered by DHCD, is federally funded and assists in the production and preservation of affordable housing for low and moderate-income families and individuals. The HOME Program can fund a broad range of activities including new construction, acquisition and rehabilitation of rental and homeownership properties, including distressed or failed properties. Current funding is generally limited to \$50,000 per HOME-assisted unit (\$65,000 per unit outside communities which receive local HOME funding directly from the federal government).

## Appendix B

### Massachusetts CDC Homeownership Projects On Hold

<b>State Has Awarded Funds to CDC Project, But Funds Have Not Been Received</b>							
CDC Name/Community	Housing Project Name and Location	# Homeo'ship units/ #Affordable to 80%*	State Funding Programs Needed**	Funding Status/Risk Posed by Funding Delays	State Senator and Representative	Month/Year Received Award	
Dorchester Bay Economic Development Corporation	Tebroc/Levant 143-145 Bowdoin St., 7 Treboc, 8 & 10 Levant, Dorchester	4 units/ 4 afford. (plus 1 affordable rental unit)	HSF, AHTF	Funding approved by DHCD***. Project cannot close without state funding and delays have increased projected construction costs	Sen. John Hart Rep. Marie St. Fleur	December 2004	
Lawrence Community Works (LCW)	Union & Mechanic Homes 61-63 and 9-15 Mechanic Street and 122 Union Street, Lawrence	5 units/5 afford.	AHTF	Funding approved by DHCD. LCW may need to close without AHTF funds. Delays have increased overall project costs.	Sen. Susan Tucker Rep. William Lantigua	May 2005	
Lawrence Community Works (LCW)	Scarito Homes 81 Summer Street, Lawrence	10 units/10 afford.	AHTF	Funding approved by DHCD. LCW may need to close without AHTF funds. Delays have increased overall project costs.	Sen. Susan Tucker Rep. William Lantigua	May 2005	
Salem Harbor CDC	50 Palmer Street Salem	9 units/ 9 afford. (plus 6 affordable rental units)	HSF, AHTF	Funding approved by DHCD. Project's zoning variance expires January 2006.	Sen. Frederick Berry Rep. John D. Keenan	June 2005	
Somerville Community Corporation	Temple St. Condos 65 Temple Street, Somerville	15 units/ 8 afford.	HSF, AHTF	Funding approved by DHCD. Project cannot close without state funding and delays have increased overall project costs.	Rep. Carl Sciortino (Vacant Senate Seat)	January 2005	
<b>TOTAL UNITS:</b>		<b>43/36</b>					
<b>CDC Applied for Funding; State Will Not Disclose Amount or Timing of a Decision</b>							
CDC Name/Community	Housing Project Name and Location	# Homeo'ship units/ #Affordable to 80%*	State Funding Programs Needed**	Funding Status/Risk Posed by Funding Delays	State Senator and Representative	Month/Year Applied	
Housing Assistance Corporation, Hyannis	The Homesteads Osprey Lane, Sandwich	16 units/16 afford.	HOME, AHTF	Applied for state funding, but has not received an answer.	Rep. Jeffrey Perry Sen. Therese Murray	January 2005	
Jamaica Plain Neighborhood Development Corporation (JPNDC)	Scattered Sites in Jamaica Plain 2 Paul Gore Ter., 81 Chestnut Ave., 41 Roundhill St., 1-3 Gayhead St., 13-15 Armstrong St., 11-13 Ashley St., and 3-4 Grotto Glenn Rd, Jamaica Plain	13 units/ 13 afford.	HSF, AHTF	Applied for state funding, but has not received an answer. Bid price from contractor in jeopardy which could force JPNDC to re-bid resulting in higher construction costs.	Sen. Dianne Wilkerson Rep. Jeffrey Sanchez	February 2005	
<b>TOTAL UNITS:</b>		<b>29/29</b>					

(continued)

## Appendix B

### Massachusetts CDC Homeownership Projects On Hold

<b>State Will Not Accept Funding Application from CDC</b>						
CDC Name/Community	Housing Project Name and Location	# Homeo'ship units/ #Affordable to 80%*	State Funding Programs Needed**	Funding Status/Risk Posed by Funding Delays	State Senator and Representative	
Allston Brighton Community Development Corporation	Long-Glen 48-52 Glenville Ave., Allston	33 units/33 afford.	HOME, HSF	City of Boston has committed funds. Carrying costs have increased project costs while waiting for state funding.	Sen. Jarrett Barrios Rep. Kevin Honan	
Hilltown CDC, Chesterfield	Laurel Road, Haydenville	11 units/ 11 afford.	AHTF, HOME	Hilltown CDC may lose site control in October without state funding.	Sen. Andrea Nuciforo Rep. Stephen Kulik	
Housing Assistance Corporation, Hyannis	Gallagher Lane 936 Wakeby Road, Marston Mills	7 units/ 4 afford.	DHCD Funding	Because HAC was told not to apply for state funding, the project scaled back its number of affordable units and is working to fill \$100,000 gap.	Sen. Therese Murray Rep. Jeffrey Perry	
Inquilinos Boricuas en Accion/Emergency Tenant Council (IBA/ETC), Boston	Neponset Field Scattered Sites Many at 36 Poydras Street, Dorchester	48 Units/15 afford.	AHTF, HSF	Project incurring carrying costs of \$10,000 each month while IBA/ETC waits to apply for funding.	Sen. John Hart Rep. Linda Dorcena Forry	
Jamaica Plain Neighborhood Development Corporation (JPNDC)	Green Street 131-135 Brookside Ave., Jamaica Plain	24 units/ 12 afford.	DHCD Funding		Sen. Dianne Wilkerson Rep. Elizabeth Malia	
Just A Start, Cambridge	Gateview Condominiums 2495 Massachusetts Ave., Cambridge	14/14	HOME, HSF	Ready to proceed with construction but need state funding to start.	Sen. Steven Tolman Rep. Anne Marie Paulsen	
Lynn Investing in Neighborhood Coalition	Green Street Artist Space 111-125 Green St., Lynn	17 units/ 17 afford.	HOME		Sen. Tom McGee Rep. Robert Fennell	
Neighborhood of Affordable Housing, East Boston	Border-Falcon Condos 427-429 Border St. and 10 Falcon Street	14 units/ 14 afford.	HSF, AHTF	Project is incurring high carrying costs while it waits to apply for funding.	Sen. Robert Travaglini Rep. Anthony Petrucci	
Oak Hill Community Development Corporation, Worcester	Homes for Union Hill 30 Mendon St., 25 Mott St. and 82 Harrison St., Worcester	6 units/6 afford.	HOME, HSF		Mendon and Mott Street Homes: Sen. Edward Augustus and Rep. John Fresolo. Harrison St: Sen. Harriette Chandler and Vincent Pedone	
Somerville Community Corporation	Highland Ave. Condos 162 Highland Ave., Somerville	7 units/ 7 afford.	HSF, AHTF	Project is incurring high carrying costs and may lose site control.	Rep. Patricia Jehlen (Vacant Senate Seat)	
Urban Edge, Roxbury and Jamaica Plain	Roslindale Field 8-78 Rowe Street, Roslindale	25 units/ 10 afford.	AHTF, HOME	Access to pre-development funds are hindered and project delay is increasing costs.	Sen. Marian Walsh Rep. Angelo Scaccio	
Valley CDC, Northampton	The Oaks Project Burts Pit Road, Florence	8 units/ 8 afford.	DHCD Funding		Sen. Stanley Rosenberg Rep. Peter Kocot	
<b>TOTAL UNITS:</b>		<b>214/151</b>				

**GRAND TOTAL: 286/216**

\* # Affordable to 80%: The number of units affordable to households earning no more than 80% of the area median income adjusted for household size, as defined by HUD.

\*\* State funding sources come from three programs: Affordable Housing Trust Fund (AHTF), Housing Stabilization Fund (HSF) and the State HOME program (HOME). All are designed to create and preserve affordable housing, both rental and homeownership, in MA. See Appendix A for a more detailed description of each program.

\*\*\* DHCD, Department of Housing and Community Development, is the Massachusetts agency which administers many of the state's housing programs.

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