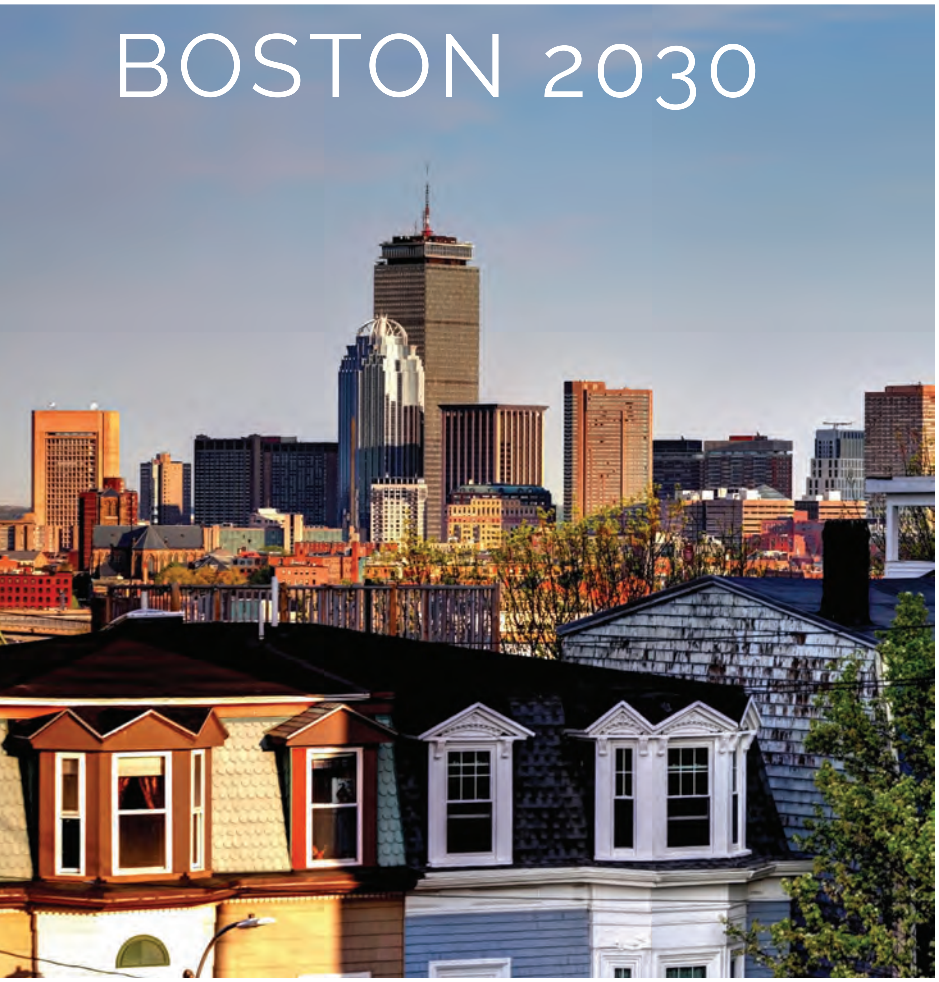
MAYOR MARTIN J. WALSH

HOUSING A CHANGING CITY

BOSTON 2030



CHAPTER 2

2014

PRESERVING AFFORDABLE HOUSING

Although Boston has demonstrated a strong commitment to affordable housing, with 52,800 subsidized units to help house its low- and moderate-income residents, these critically important assets can become at risk. Boston's strong real estate market makes it extremely attractive for landlords with expiring affordability restrictions to convert their property to market-rate housing.

Without assistance, the surging real estate market will cause a loss of critically-needed affordable housing, offsetting the gains generated from new production. Given that the cost to create a replacement unit tends to exceed the cost to save an existing unit, the City must make sure that losses of affordable housing units are kept to an absolute minimum. There are two forms of affordable housing, facing very different threats:

I. Public Housing

The Boston Housing Authority (BHA) is the city's largest provider of low-income housing. For many years, the BHA has made a concerted effort to lower its vacancy rates, provide improved, healthier living environments, and conserve energy. Yet this progress is now threatened by significant Federal budget cuts.

The BHA and other housing authorities are confronting long-term budget deficits in their federally-subsidized housing portfolios. While the Leased Housing budget has stabilized, averting the need to take families off the program, the future of public housing and the viability of its physical buildings remains threatened.

II. Private Affordable Housing

In the late 1960s, the Federal government began to move away from producing affordable housing through public entities, instead shifting financial incentives to private developers. These Federal efforts were supplemented with similar programs operated by the State. This development model was very successful in Boston, producing thousands of privately-owned affordable units. However, these programs also allowed owners to opt out of their affordable housing obligations after 30-40 years. With most of Boston's developments now well past their 30- or 40-year restrictions, there is a constant risk of owners opting out of the affordable housing business and converting units to market-rate housing. Boston's rising market rents enhance that threat by making conversion to market-rate housing more and more financially attractive.

This Choice Neigborhoods development includes a six unit, new, net-zero energy use building on Quincy Street, Roxbury. All buildings will qualify for LEED Silver or higher energy rating.

I. Public Housing: Current Conditions

The BHA is the largest public housing authority in New England and the sixth largest in the nation, owning and operating 63 family and elderly/disabled developments, which are home to more than 25,000 Boston residents (12,623 households). Eighty-two percent of these units are federally-funded, and 18 percent are state-funded. The BHA also administers Housing Choice Vouchers (Section 8 or Leased Housing) for more than 11,000 families who rent from private landlords. In addition, the Commonwealth, acting through Metropolitan

TABLE 7: **Share of Neighborhood Housing Stock that is BHA-Owned or -Assisted**

Neighborhood	Total Households	Public Housing Units	BHA Vouchers	% Households BHA-Assisted
Dorchester	31,098	1,238	4,343	18%
South Boston	15,815	2,476	195	17%
Charlestown	7,939	1,192	71	16%
Roxbury	23,413	1,763	1,345	13%
South End	14,639	1,440	452	13%
Roslindale	12,720	527	742	10%
Mattapan	12,065	295	870	10%
Jamaica Plain	17,177	1,128	392	9%
East Boston	14,832	669	537	8%
Hyde Park	11,948	445	543	8%
Allston/Brighton	29,320	1,051	360	5%
Back Bay/Beacon Hill	13,342	130	255	3%
Central*	6,979	99	432	3%
Fenway/Kenmore	13,797	0	326	2%
West Roxbury	12,537	170	142	2%
TOTAL	**247,621**	**12,623**	**11,005**	**10%**

Sources: 2011 American Community Survey Five-Year Estimates and the Boston Housing Authority. (Note: some addresses could not be geo-coded from this source, therefore total households listed here is less than other tables). *Central Boston includes Downtown, the North End, the West End and Chinatown.

Boston Housing Partnership (MBHP), provides rental assistance to another 5,300 households in Boston. Almost one in every ten households in Boston either lives in BHA-owned housing, or receives financial assistance from the BHA to rent private housing. In some neighborhoods such as Dorchester, South Boston, and Charlestown, the ratio is closer to one in six (See Table 7, page 35).

BHA developments are among the most diverse communities in the city of Boston across a spectrum of measures, including race, ethnicity, religion, age, disability status, languages spoken, immigration/refugee status, and family status. BHA residents are roughly 42 percent Latino, 32 percent Black, 16 percent White, and 10 percent Asian. Most of these households are extremely low-income, averaging about $14,000 in annual income per household. Currently, the public housing waitlist includes about 36,000 applicants. The BHA Leased Housing waitlist now includes about 16,000 applicants, but has been closed for all but the highest priority emergencies since 2008. The BHA also employs more than 800 people and invests more than $100 million into the local economy each year, via construction jobs, goods, and services.

The BHA has had a long period of continuous improvement in housing quality, vacancy reduction, innovative financing initiatives, and capital upgrades. With a 98 percent occupancy rate, an all-time high, the BHA has earned a solid reputation for its redevelopment efforts, energy efficiency, and healthy housing initiatives.

Children play on their new playground at the new Boston Housing Authority development at Old Colony in South Boston.

I. Public Housing: Key Issues

A Structural Realignment in Washington

Public Housing Authorities (PHAs) are facing an unprecedented lack of financial support at the Federal level, with reductions in funding expected to continue. These shortfalls threaten to severely impact public housing, and will constrain the BHA's ability to continue its positive trajectory of the past 20 years. These funding reductions are not just the typical cyclical adjustments that are common in the public sector. Instead, there is a structural realignment of public housing occurring, with HUD increasingly encouraging housing authorities to find alternative funding mechanisms, including privatization, to sustain their portfolios.

Reduced HUD Funding For Operating Expenses

Due to reduced Congressional appropriations, HUD has only been able to provide PHAs with 80-95 percent of their annual eligible funding. In the current calendar year, the BHA expects to receive between 87 and 89 percent of its eligible funding. This reduction means the BHA will receive $6.8 million less in operating funding than HUD acknowledges is necessary to manage its properties. The BHA is currently receiving $97 million in operations funding from HUD, of which $62 million is used for non-utility expenses, such as maintenance. This equates to a monthly per-unit cost allocation of just over $500, versus the $700 per unit monthly spent by other Boston housing providers.

In addition, a growing deficit exists in funding for security and protective services, which costs the BHA $5.9 million annually. Currently, there is no dedicated funding source from HUD for this activity. In previous years, the BHA received supplemental security funding from private revenue, which has since been eliminated.

Reduced HUD Funding For Capital Expenses

Capital funding has also been drastically reduced, with an allocation to the BHA of just over $16 million annually, compared to nearly $30 million annually a decade ago. The BHA estimates its current overall capital need at about $500 million—an average of about $70,000 per unit. The BHA currently addresses only life-safety and emergency capital repairs with the funding it receives, and is unable to replace many antiquated interiors, perform curb appeal improvements, or undertake the level of preventative maintenance required to keep capital repair needs from growing substantially each year.

Reductions in Personnel/Staffing

The BHA has reduced its workforce by more than 100 employees in the past two years through attrition, retirement, and staff reductions. The Authority currently has 827 FTEs in the FY15 budget. The BHA has taken very deliberate and challenging steps to reduce personnel spending in recent years in order to confront its budget challenges.

II. Private Affordable Housing: Current Conditions

Boston currently has 30,435 units of privately-owned affordable rental housing. One in eight Bostonians depends upon this housing stock for an affordable place to live, and in some neighborhoods, such as the South End and Roxbury, it is one in three households (Table 8).

TABLE 8: **Privately-Owned Assisted Rental Housing in Boston, 2014**

Neighborhood	Total Households	Privately-Owned Assisted Rental Units	% Households in Assisted Housing
Roxbury	23,413	8,222	35.1%
South End	14,639	4,802	32.8%
Jamaica Plain	17,177	2,423	14.1%
Fenway/Kenmore	13,797	1,802	13.1%
Central	16,979	2,166	12.8%
East Boston	14,832	1,704	11.5%
Mattapan	12,065	1,101	9.1%
Dorchester	31,098	2,529	8.1%
West Roxbury	12,537	964	7.7%
Allston/Brighton	29,320	2,234	7.6%
Charlestown	7,939	555	7.0%
Roslindale	12,720	644	5.1%
Back Bay/Beacon Hill.	13,342	602	4.5%
Hyde Park	11,948	437	3.7%
South Boston	15,815	250	1.6%
TOTAL	**247,621**	**30,435**	**12.3%**

Source: 2011 American Community Survey Five-Year Estimates (note that some addresses could not be geocoded from this source, therefore total households listed here is less than other tables). Privately Owned Assisted Rental Unit numbers provided by Community Economic Development Assistance Corporation, May 2014

II. Private Affordable Housing: Key Issues

Affordable Housing is at Risk from Owner Opt-Outs

Through the Tenants at Risk Program, the City works closely with the Community Economic Development Assistance Corporation (CEDAC) to develop and implement strategies for preserving the privately-owned affordable stock in Boston. The City also provides funding through this program to help support outreach and organizing for tenants who live in at-risk developments.

This strategy has worked well over the years. Since 2000, Boston has lost only 1,988 units of affordable housing. These losses occurred when private owners converted their affordable developments into market-rate housing after affordability restrictions expired. This represents a loss of six percent of the privately-owned affordable rental housing stock. Where units were lost, HUD would generally provide existing tenants with rent subsidies that could be used to retain their existing apartment, or rent elsewhere.

The majority of Boston's privately-owned subsidized housing stock is relatively stable, because it is owned by either non-profit entities or owners who have entered into long-term affordability extensions. However, CEDAC has identified 3,038 units of housing at elevated risk for conversion into market-rate housing within the next ten years (Table 9).

TABLE 9: **Risk Profile of Boston's Privately-Owned Affordable Housing Stock**

Risk Category	Units
Elevated Risk: For-profit owned, expiring restrictions, no rent subsidies or strong markets	3,038
Limited Risk: For-profit owned, expiring restrictions, risk mitigated though rent subsidies or other restrictions	1,167
Minimal Risk: Non-profit owned or long-term affordability restriction	26,230
Total	**30,435**

Source: Community Economic Development Assistance Corporation, Aug 2014

As shown in Table 10, a substantial number of these units are in some of Boston's highest-priced neighborhoods where the market incentives for developers to opt out are high.

13A: A New Threat to Affordable Housing

A special subset of at-risk housing is 13A Housing. In the 1970s, MassHousing created the 13A program, which financed more than 1,000 units of low-income rental housing in Boston. 13A developments have 40-year affordability terms. One 13A development has already come to the end of its affordability term, and the rest will expire within the next six years.

Tenants in 13A developments face an increased risk due to HUD's recent determination that it will no longer provide rent subsidies to tenants in state-funded developments where the owner wishes to convert to market-rate housing. This means that tenants in 13A developments could face potential displacement.

The application of the State's 40T Statute ("An Act Preserving Publicly-Assisted Affordable Housing") will provide some limited protection, with its requirement for public notice provisions as well as the right of first refusal if the affordable housing is sold. However, the most relevant of the provisions may be the limitation on how much the owner can increase rents for the existing tenants for the three years after termination of the affordable housing restriction.

Of the 1,043 affordable units produced via 13A, 607 have been identified as at elevated risk for conversion (Table 11). Furthermore, for 245 of those 607 units, project owners have already indicated a desire to convert to market-rate.

The remaining 436 units have been deemed at minimal risk either because they have already been preserved, or because they are owned by non-profit entities.

TABLE 10: Affordable Housing at Elevated Risk by Neighborhood

Neighborhood	Developments	Units
Fenway/Kenmore	4	536
Allston/Brighton	5	494
South End	7	467
Central	7	412
Roxbury	4	232
Back Bay/Beacon Hill	4	230
Roslindale	2	194
Dorchester	1	183
Jamaica Plain	1	147
East Boston	2	65
South Boston	1	49
West Roxbury	1	29
CITYWIDE	**39**	**3,038**

Source: Community Economic Development Assistance Corp. August, 2014

TABLE 11: 13A Developments in Boston by Risk Level, 2014

Risk Level	Developments	Units
Elevated Risk	9	607
Minimal Risk	4	436
TOTAL	**14**	**1,043**

Source: Community Economic Development Assistance Corp. August, 2014

Preserving Affordable Housing: Goals

PUBLIC HOUSING

1. Maintain a 97 percent or higher occupancy rate in BHA Housing

BHA's top priority is keeping units available and occupied. Where appropriate, identify and secure Federal programs such as Choice Neighborhood Grants, Rental Assistance Demonstration (RAD), and private investment of capital to support this effort. Functions and activities that do not directly support this goal will be impacted first to address funding shortfalls.

2. Raise public awareness of the threat to public housing

Achieving the BHA's occupancy goals in the current resource environment will require the BHA to adopt strategies that may necessitate significant changes in how public housing in Boston is operated. A key near-term goal for the BHA is to raise awareness of these challenges and build support for needed changes from its partners in City, State, and Federal government, as well as from the BHA's employees and tenants.

PRIVATE AFFORDABLE RENTAL HOUSING

1. Retain at least 97 percent of privately-owned affordable rental housing

Retaining at least 97 percent of the City's 30,435-unit portfolio may be difficult, given the twin challenges of the 13A issue and declining Federal support. Attaining this goal will require a commitment of significant resources from the City and State. To this end, the City understands that to best use our scarce housing preservation resources, the preservation of at-risk units, especially 13A units, must take precedence over upgrading affordable units that are not at risk.

2. Seek to preserve all of the 13A developments; where preservation is not an option, ensure that 100 percent of tenants in those developments have access to alternative housing options

Unlike other affordable housing opt-outs, in 13A developments there are no tenant protection vouchers available to low-income residents if that development converts to market-rate housing. Working with our partners at the State and in the non-profit community, we will execute strategies to provide assistance to tenants of units that, despite best efforts, may not be preserved.

Preserving Affordable Housing: Actions

PUBLIC HOUSING:

1. **Explore Federal legislation to allow more fungibility between public and leased housing program funding**

   This flexibility would promote efficiencies and better decisions about how to apply scarce resources to local conditions.

2. **Develop site-by-site capital strategies**

   Develop a site-by-site preservation strategy that optimizes local assets and opportunities. Where appropriate, utilize Choice Neighborhoods, Rental Assistance Demonstration, and other funding sources, including investment of private capital, that can help preserve the portfolio for future generations of low-income residents.

3. **Continue to seek resources for redevelopment**

   BHA has attracted multiple competitive federal grants for the redevelopment of more than 2,500 units of distressed public housing. City investments have been critical for securing federal seed grants, which in turn attract significant private and state investment. Current projects in planning that will begin construction within the next 3 years include Whittier Choice Neighborhoods, Orient Heights, and Old Colony Phase 3.

4. **Continue energy performance contracting**

   The BHA will continue to innovatively finance energy- and water-related upgrades to the greatest extent possible, utilizing private sector funding.

5. **Diversify funding sources, linking new efforts to education, jobs, and health programs where suitable**

   Federal funding for these sectors is sometimes more stable than public housing funding, and the BHA must tie its housing programs to these sectors in order to best optimize all potential funding sources.

6. **Continue to implement back-office efficiencies and technology enhancements**

   Pursue any and all administrative efficiencies to reduce the costs of running the Authority; in particular, continue to move to a paperless process for applicants and re-certifications.

PRIVATE AFFORDABLE HOUSING:

1. Continue aggressive preservation efforts for every expiring use unit

The strategy of bringing together City, State and non-profit entities to develop and implement property-by-property preservation strategies for all expiring use units has proven largely successful, and has kept the loss of affordable units to a minimum. Despite declining Federal support, these aggressive efforts must continue, whether through financial restructuring for existing owners or through acquisitions under Chapter 40T.

2. Continue to support non-profit programs that provide technical assistance and organization to tenants living in at-risk properties

The City will continue to fund CEDAC's Boston Tenants At-Risk Program and the Boston Tenant Organizing Program (BTOP) to ensure that low-income tenants have a voice in the process of preserving their homes.

3. Develop and implement a 13A preservation strategy

Working with State and Federal agencies, CEDAC, the non-profit community, and tenant advocates, develop and implement a strategy to incentivize owners to preserve all or some of the affordable units at their property. This strategy would include working with the State on allowable rent levels of 13A and MRVP-supported units; obtaining additional project-based operating subsidies to preserve units in 13A developments; prioritizing or considering out-of-round funding access for 13A developments; and extending 121A tax agreements.

4. Create 13A tenant rehousing assistance programs when tenancy cannot be saved

Although we have a goal to preserve the affordability of all 13A developments, some owners have already indicated that will not be possible. Working with our partners at the State and in the non-profit sector, we will execute strategies to ensure that the low-income tenants in those units will continue to have access to affordable housing options. This may include converting existing MRVP project-based assistance to tenant-based assistance in order to secure new housing; securing additional rent subsidies for displaced tenants; and, if needed, additional emergency allocations of homelessness prevention resources for tenants in these developments.

5. Reprioritize rental preservation resources

The City will prioritize its allocation of preservation funding for protecting the most at-risk developments, especially 13A developments. Recapitalization of developments that are not at imminent risk will become a second-tier priority.