REDUCING BARRIERS TO PRODUCING AFFORDABLE RENTAL HOUSING FOR EXTREMELY LOW INCOME HOUSEHOLDS IN MASSACHSETTS

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Table of Contents

Tables and Figures **iii**

Abstract **iv**

Chapter One: Introduction **1**

Chapter Two: ELI Housing Need and Developing ELI Units **5**

Chapter Three: Research on Developing ELI Housing **24**

Chapter Four: Research Methods **37**

Chapter Five: Developer Survey Findings **44**

Chapter Six: ELI Policy Models **65**

Chapter Seven: Policy Directions for Massachusetts **82**

Appendix **94**

A- Survey 94

B- Policy Criteria 115

C- Policy Conversation Questions 116

References **117**

Tables and Figures

Tables

Table 1:	Programs Providing Capital Funding to Develop New ELI Units	**14**
Table 2:	Existing Affordable Units and Annual Production of All Affordable and ELI Units	**21**
Table 3:	Survey Participation by For- and Nonprofit Organization	**45**
Table 4:	Geographic Distribution of Population and Respondents	**46**
Table 5:	Organizational Mission	**47**
Table 6:	Organizational Interest in Starting to Produce or Increasing Production of ELI Units	**47**
Table 7:	Change in Organizational Interest if Barriers Were Addressed	**48**
Table 8:	Number of Developments Produced Annually	**48**
Table 9:	ELI Unit Sizes	**49**
Table 10:	Funding Barriers Rated by Developers	**51**
Table 11:	Highest-Rated Administrative Barriers	**53**
Table 12:	ELI Barriers with Highest Overlap with LI/VLI "Most Important" Barrier Rating	**57**
Table 13:	Highest-Rated Solutions	**58**
Table 14:	Policy Criteria for ELI Development	**65**
Table 15:	Do Models Address Policy Criteria?	**77**

Figures

Figure 1:	Developments by Annual Production of Units	**49**

Abstract

This study investigates why housing developers in the Commonwealth of Massachusetts are not producing more affordable rental housing units for extremely low income (ELI) households, the most economically vulnerable population, and explores how the Commonwealth can increase this development. First, production barriers were identified by developers. Policy experts from four states then described policies that increase ELI production in their states. Finally, policy criteria were crafted and used to evaluate these policies with respect to Massachusetts developers' barriers.

Several findings emerged including, that developers want to increase ELI production and that state coordination could simplify ELI development. Given these findings, policy directions to increase ELI development include increasing subsidy, targeting funds to ELI units, addressing investor apprehension, linking service and housing funding, broadening responsibility for ELI housing to multiple state departments, initiating ELI-specific programs, and expanding use of zoning tools. Implementing these policy directions could employ the Commonwealth's resources to incentivize additional development of ELI housing for Massachusetts' most vulnerable households.

Chapter One: Introduction

This thesis explores the barriers that housing developers in Massachusetts encounter in developing rental housing for extremely low income (ELI) households and proposes policy directions to increase ELI rental housing production in the Commonwealth.

The Problem

Housing development in the Commonwealth of Massachusetts does not produce a sufficient quantity of rental units affordable to ELI households, those earning below 30 percent of area median income (AMI). The Commonwealth of Massachusetts invests over $135 million annually in the development of affordable housing. These funds are used to construct new low income rental and ownership housing units, maintain existing public housing rental units, and subsidize tenant-based rental assistance vouchers. Despite this investment, there remains a significant shortage of units affordable and available for the state's estimated 376,465 ELI households (Massachusetts Department of Housing and Community Development 2010).[1] While low income households (those earning below 80 percent of AMI) and very low income households (those earning below 50 percent of AMI) also face a shortage of housing units, ELI households are the most economically vulnerable population in the state and the most in need of low cost rents (U.S. Department of Housing and Urban Development 2007).

[1] The U.S. Department of Housing and Urban Development (HUD) determines this income level both statewide and regionally on an annual basis. For additional detail see Chapter 2. Current and past income limits are listed at: www.huduser.org/DATASETS/il.html.

Additionally, ELI households in Massachusetts face significantly more housing challenges than the general population (U.S. Department of Housing and Urban Development 2010d).

The Questions

The persistent shortage of ELI units, despite the Commonwealth's investment raises two questions: why are developers not producing more rental units for the most economically vulnerable households and what can the Commonwealth do to increase ELI production? Answering those questions requires investigating the challenges that developers face in producing ELI units. There is significant research on barriers to development of affordable housing, but almost no documentation of the difficulty of targeting units to ELI households. This thesis expands the available affordable housing research by exploring the little-studied area of challenges specific to ELI development.

Relevance

Examining the barriers to creating ELI housing in Massachusetts is relevant given the Commonwealth's reputation as a leader in affordable housing policy development and the attention researchers have paid to its progressive and aggressive policies (Basolo, et al, 2008, Bratt 1989, Schwartz, 2006). The Commonwealth of Massachusetts is one of only four states with state-aided public housing, and the Commonwealth has implemented its own version of the federal Section 8 voucher program (Massachusetts Department of Housing and Community Development 2010b). Given the Commonwealth's history of

proactive attempts to address housing affordability problems, the shortage of ELI units and the barriers developers face in creating ELI units is an unexpected quandary.

Exploring the issue of developing ELI housing is timely given the crises of rising unemployment and homelessness in the Commonwealth, which have increased need for ELI units (Massachusetts Department of Housing and Community Development 2010b). This crisis has prompted innovations in homeless-related policies. The Commonwealth's decision to shift emergency assistance funding to the Department of Housing and Community Development (DHCD) demonstrates an understanding that linking shelter and housing funding sources is a necessary step in providing homeless ELI households with affordable housing (Sard 2009; Massachusetts Department of Housing and Community Development 2007).

The Audience

Information about why developers are not producing units for ELI households is useful for state policy makers, housing policy advocates, and affordable housing practitioners. Each of these parties plays a role in influencing how state funds, regulations, and guidelines are structured to serve populations at various income levels. If these parties understand the challenges developers face in creating ELI units and the methods to mitigate these barriers, they can influence policies to increase ELI development. As a state that has a reputation for being a leader on affordable housing policy issues, Massachusetts can contribute to the national housing policy conversation by addressing the challenge

of producing ELI housing.

Process of Exploration

This thesis investigates the challenges of developing ELI housing in Massachusetts through a review of literature, the administration of a survey to Massachusetts affordable housing developers, discussions with policy experts in other states, and the evaluation of potential solutions to overcome the ELI development barriers. The following chapters discuss: 1) research on the gap between ELI incomes and Massachusetts housing costs and the process of developing ELI housing in Massachusetts, 2) research on the development of affordable housing, 3) methods to address the missing discussion of ELI development in the current research, 4) findings from a survey administered to Massachusetts housing developers, 5) policy models from other states that resulted in increased production of ELI housing, and 6) policy directions that have the potential to increase ELI housing production in Massachusetts.

Chapter Two: ELI Housing Need and Developing ELI Units

Massachusetts' existing ELI rental housing stock and annual production of new rental units affordable to ELI households is not sufficient to meet the current need. Part One of this chapter summarizes state and federal data to illuminate the gap between the needs of ELI households in Massachusetts and the rental housing resources available to them. Part Two of the chapter then describes the complicated process of developing affordable rental housing for ELI households.

Part One: ELI Housing Need

Existing Supply of Subsidized Units Affordable to ELI Households is Insufficient

There is a shortage of affordable, available, and adequate units for ELI households nationwide and in Massachusetts (Bratt, Stone and Hartman 2006; Joint Center for Housing Studies 2010; National Low Income Housing Coalition 2010; Schwartz 2010). Fifteen percent, or 376,465 households in Massachusetts, are ELI and earn below $24,800 annually, 30 percent of the statewide AMI for a four person household in Massachusetts (U.S. Bureau of the Census 2008a; Massachusetts Department of Housing and Community Development 2010c; U.S. Department of Housing and Urban Development 2010b). Market-rate rent levels throughout the state are unaffordable to the 271,725 of these ELI households that rent.[2] Only 221,995 (or 23 percent) of rental units in Massachusetts are

[2] HUD's fair market rents (FMRs) for efficiencies in Western Massachusetts range from $583 to $623. In the eastern part of the state, FMRs range from $751 to $1,090. There is a 92 percent difference between FRMs in Boston and those in Western Worcester. There is a 69 percent difference between the two bedroom FMR of $1,357 in the Boston area and the FMR of $801 in Berkshire County. Four bedroom FMRs range 49 percent from $1,623 in the Boston area to

affordable to households earning below 30 percent of AMI (U.S. Bureau of the Census2008a).[3] This leaves a shortage of 50,000 rental units affordable to ELI households.

Massachusetts' shortage of ELI rental units is similar to the shortage across the country. Nationally, for every 100 ELI households there are 67 affordable units; however, only 35 of those units are available and adequate for habitation (U.S. Department of Housing and Urban Development 2007). In metropolitan areas this rate falls to 31 units for every 100 ELI households (U.S. Department of Housing and Urban Development 2007). The shortage of affordable, available, and adequate units is most dire for ELI households (U.S. Department of Housing and Urban Development 2007; Stone 2006).

This ELI rental unit shortage includes a shortage of subsidized units. Nationally, eighty percent of the poorest households cannot access federally subsidized housing (U.S. Bureau of the Census 2008a). Seven percent of households earn below $10,000, but only one percent of households have access to federally subsidized housing (U.S. Bureau of the Census 2008a; U.S. Department of Housing and Urban Development 2010d).

In 2008, there were 49,550 state-aided public housing units, 33,559 federally public housing units, 79,311 state or federally funded tenant- or project-based vouchers, and 110,000 privately owned subsidized units in Massachusetts

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$1,086 in Pittsfield County. A four bedroom unit in Pittsfield is the equivalent cost of an efficiency in the Boston area.

[3] Rent plus utilities. Massachusetts has 2,724,787 ownership and rental units; 862,239 are rental units and 32 percent of those are assisted or subsidized units, a portion of which are affordable to ELI households (U.S. Bureau of the Census 2008a,).

(Verilli 2008; MADHCD Consolidated Plan 2010).[4] While all subsidized units targeted low income households, the housing stock that primarily served ELI households was public housing, project-based assistance, and tenant-based vouchers; in each of these types of units, a household generally paid only 30 percent of its income towards rent.[5] The agency administering the housing subsidy paid the difference between the tenant rent contribution and the operating cost of the unit. [6]

Because a portion of the units funded by these programs were occupied by low and very low income households, there were fewer than 221,995 units serving ELI households. The housing needs of the 271,725 ELI renter households in Massachusetts were not served by the existing stock of affordable units. Though 23 percent of rental units in Massachusetts are affordable to ELI households, only 57 percent of these units are actually occupied by ELI households; the rest are occupied by households with higher incomes (U.S. Department of Housing and Urban Development 2007).

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[4] Only a portion of the privately owned subsidized units target ELI households.

[5] Public housing authorities administering vouchers can apply for a waiver from HUD to charge above the payment standard of 30 percent tenant rent contributions when PHA funding is insufficient to cover operating costs (CHAPA AH Guidebook 44).

[6] a) This is either the state department of housing and community development (DHCD) or the federal department of HUD.

b) Some units of the assisted, affordable housing stock may be categorized as affordable to households earning at or below 30 percent of AMI, however, depending upon the affordability structure, units may not be affordable to the lowest income households. For market-rate rents or partially subsidized flat rents, not governed by the Brooke rule, rents may be set at a level that is affordable to 30 percent of AMI but would be unaffordable to lower income households.

c) The Brooke rent rule establishes rent affordability as paying no more than 30 percent of household income towards rent. Households earning 20 percent of AMI or 10 percent of AMI would pay a higher proportion of income towards rent than households earning 30 percent AMI; the difference in this proportion would cause rent burden for the lower income households.

Rent Burden and Low Incomes

A household is considered rent-burdened when it pays more than 30 percent of its income for housing; a household is considered severely rent-burdened when its housing costs more than 50 percent of its income (U.S. Department of Housing and Urban Development 2007).[7] The lower the income of a household, the greater the likelihood that it will experience rent burden.

Rent burden and other housing problems are much worse for ELI households than the general population (Knutty 2005; Stone 2006). Over 70 percent of ELI households have a housing problem such as rent burden, overcrowding or inadequate facilities (U.S. Department of Housing and Urban Development 2007).[8] Nationally, 68 percent of ELI households are rent burdened compared with 30 percent of total households (U.S. Department of Housing and Urban Development 2010d).[9] Over one-third of ELI households have severe rent burden compared to 17 percent of very low income households (U.S. Department of Housing and Urban Development 2007).

ELI households in Massachusetts simply do not earn nearly enough to avoid rent burden. Over 20 percent of all households earn less than $24,999 annually, an income threshold roughly equal to 30 percent of the Massachusetts statewide AMI for a four person household (U.S. Bureau of the Census 2008a; U.S. Department of Housing and Urban Development 2010b). Eight percent of all households earn between $15,000 and $24,999, five percent earn between $10,000 and $14,999, and nearly seven percent earn below $10,000 annually

[7] This measure of rent burden is set by HUD.
[8] "Inadequate facilities" is defined as lack of proper kitchen or plumbing facilities.
[9] This is 347,999 ELI households.

(U.S. Bureau of the Census 2008a).[10]

The incomes of these households are unlikely to increase. A large percentage of the state's ELI population does not have high educational attainment: 46 percent of adults do not have a college degree, 34 percent have only a high school diploma, and 12 percent do not have a high school diploma (U.S. Bureau of the Census 2008a). Further, many of these households include a person with a disability who may not be able to work or may have limited potential to earn income (U.S. Bureau of the Census 2005).

Unsubsidized ELI renters in Massachusetts must spend the majority of their incomes on rent to afford a unit in the greater Boston area (Bluestone, Billingham and Herrmann 2009). Massachusetts has the sixth highest rate, 47 percent, of ELI households experiencing rent burden (National Low Income Housing Coalition 2010).[11] A household must earn $48,602 annually, or $23.37 an hour, working a 40-hour week to rent a two-bedroom unit and avoid rent burden (National Low Income Housing Coalition 2010). Minimum wage earners must work almost three full-time jobs to afford the average rent for a two bedroom unit in Massachusetts.[12] In some areas of the state, a household must earn $67,320 to afford a two bedroom unit (National Low Income Housing Coalition 2010). Despite an increase in vacancies during the recent foreclosure

[10] Many ELI households derive fixed incomes from government benefits: 27 percent receive Social Security Income (average payment of $14,069, below 30 percent AMI for a single person) and three percent receive cash public assistance with an average annual payment of $4,196 (Social Security Administration 2009).

[11] Rent burden is a clear indicator that a household's affordability need is not being met by its current housing situation. HUD defines rent burden as spending more than 30 percent of household income on rent.

[12] Massachusetts minimum wage is $8 per hour. A minimum wage worker earns only 35 percent of the minimum amount needed to affordably rent a two bedroom unit (Massachusetts Office of the Attorney General 2009).

crisis, the number of rental units affordable to ELI households did not increase. In 2009, Boston rose to the position of the least affordable city in the country for renters and rent levels actually increased (Bluestone 2009).[13]

Current economic circumstances are working against these already low income households. Given minimal increases in wages over the last three decades and the rise in unemployment, earnings of the lowest income households have not increased and are likely to remain stagnant (Massachusetts Office of the Attorney General 2008). In fact, incomes may decrease as the lowest wage earners are typically the first population to lose jobs in an economic downturn (U.S. Bureau of Labor Statistics 2009; Sum, Khatiwada and Palma 2010; Knutty 2005).

Increasingly, ELI Households Cannot Afford Any Housing

Over14,500 ELI people in Massachusetts could not afford any housing and were homeless in 2008 (U.S. Department of Housing and Urban Development 2009).[14] In 2009, the rate of homelessness in the City of Boston was among the top ten highest rates nationally[15] (National Alliance to End Homelessness 2009). The number of Massachusetts households that cannot afford housing has increased significantly in recent years. Families entering shelter increased statewide by 32 percent between 2007 and 2008, and again by 37

[13] In the greater Boston area, rents rose above where historical trend data would have placed them; two bedroom rents rose by $35 to $1,380 in 2009 (Pelletiere, Rho and Baker 2009). Effective rents had declined at the end of 2008, however, this followed three years of rent increases. The 2008 decline resulted in little affordability change, with average rents declining by only $19 (Bluestone 2009; National Low Income Housing Coalition 2010). The perception of significant rent decline is further debunked by examining rent changes before 2008. Between 2007 and 2008, 19 of the 23 greater Boston communities' rent levels remained consistent or increased by up to 27 percent. Between 1998- 2006 rents increased between eight and 52 percent (Bluestone 2009).
[14] Approximately 60 percent were individuals and 40 percent were in families.
[15] For HUD Continuum of Cares. Nearly one percent of households were homeless.

percent between 2008 and 2009 (Sard 2009; McKim 2009; Valencia 2009; City of Boston 2009).[16] Additional households are also homeless but instead of accessing shelter are "doubled up" [17] with friends or family members. As many as 48,000 Massachusetts children were reported as doubled up over the course of a year (Institute for Children and Poverty 2010; Massachusetts Department of Education 2007).[18]

Further, it is more costly for the state to provide shelter for these households than to provide housing (One Family 2006). In 2008 the Commonwealth budgeted $133 billion for the operation of homeless shelter and services while DHCD's budget for all low income housing programs was $135 billion (Massachusetts Department of Housing and Community Development 2010a). It costs the state $48,440 to shelter and provide emergency services to a family for one year and $12,000 to shelter an individual without services for one year (Massachusetts Department of Housing and Community Development 2007). Alternately, the state estimates that it would cost $2,000 in operating costs to house a family for one year and $1,875 to house an individual for one year (Massachusetts Department of Housing and Community Development 2007).[19]

[16] At the time of writing, 2009-2010 data was not yet available.
[17] Households earning above the 115 percent of federal poverty level income limit may still be unable to afford rent. $16,764 is the two person household limit and $25,488 is the four person household limit.
[18] This number includes children living in shelter, those awaiting foster care, unaccompanied youth, and doubled up households. Another count indicated that children represented 20 percent of all homeless people, a number far less than the DOE estimate one year later (2006 Annual Homeless Assessment Report, HUD 2009). One uses a single night count of homeless people; the other study uses a yearlong count. The difference between these estimates illustrates significant undercounting of households that are doubled up as well as the precarious housing circumstances of doubled up households.
[19] These figures represent estimates of operating costs for newly constructed units to serve formerly homeless households and were calculated in conjunction with the capital costs of

Part Two: Challenging Process of Creating ELI Units

Developers creating ELI rental units in Massachusetts must navigate a multi-stage development process that requires competing for and coordinating predevelopment, capital, operating, and sometimes services funding from both state and federal resources. The process of developing affordable housing for low income households is more complicated and lengthy than that of developing single-family market-rate housing in which a developer acquires a parcel of land, applies for permits, and obtains construction financing. To create units affordable to low income households, developers must also follow a separate financing process that involves securing several types of state administered construction loans and grants, operating assistance, and sometimes service funding. In order to secure sufficient financing to provide low rent units for ELI households, developers must often apply for multiple additional types of funding, layering both capital and operating subsidies. The affordable development process also often involves lengthy negotiation of community permitting and approval processes which adds to the development costs.

Beginning the Process

Developers often lack resources for site acquisition and planning of affordable properties and so must seek assistance from the state. The state offers predevelopment funding to assist nonprofit developers through this process. Five quasi-public agencies, the Community Economic Development Assistance

providing new units. Capital costs were estimated at $150,000 per unit for units for families and $100,000 per unit for units for individuals.

Corporation, MassHousing, the Massachusetts Housing Partnership Fund, Mass Development and the Massachusetts Housing Investment Corporation, administer predevelopment funds for affordable rental development. The Federal Home Loan Bank of Boston also operates the New England Fund as a predevelopment resource. In all cases, predevelopment funds are limited and competitive.

Securing Capital Funds

Next, a developer needs to identify capital financing for the construction of the affordable rental units in a project. The state offers a range of capital financing grants and loans that can be used to build affordable rental housing for low, very low, and extremely low income households. These funds reduce the cost of construction of the affordable units and thus, the ongoing cost of debt on affordable units. Again, these funds are competitive and developers may need to apply for funding several times before receiving a funding award.

Several state and federal capital funding programs create rental units affordable to low and very low income households but not ELI households. These sources include the federally funded HOME, Community Development Block Grant, Rural Housing, and Neighborhood Stabilization programs. State housing funding sources that target higher income households include the Housing Stabilization Fund, the Local Initiative Program, and the Community Preservation Act. Tax-exempt bonds also fund rental units for low income households. The Federal Home Loan Bank of Boston operates the Affordable Housing Program serving low income households. Additional affordable housing

subsidies and programs exist but do not target ELI households in the New England region.[20] These capital programs must be combined with additional capital or operating funding from programs that do target ELI households in order to offer rents low enough for ELI households to afford. Without combining multiple funding sources, ELI households would need a tenant-based voucher to afford to rent a unit created through one of these programs, just as they would to access a market-rate unit.

The Commonwealth and HUD offer several capital funding programs that target a portion of resources to ELI households. These limited funds are competitive and may be difficult for developers to obtain.[21] The following table lists those state and federal capital funding programs currently producing new units.

Table 1: Programs Providing Capital Funding to Develop New ELI Units

Subsidy	Portion of Total Funds Targeted to ELI Households
Low-Income Housing Tax Credit Program	10% of units for ELI households.
Affordable Housing Trust Fund	15% of funds are set aside for units serving ELI or homeless households.
Housing Innovation Fund	25% percent of units for ELI households
Community Based Housing	Target population is primarily, if not exclusively ELI. Geared to households at 15% to 18% of AMI.
Facilities Consolidation Fund	Target population is primarily, if not exclusively ELI.
Section 811	Targets VLI households but because of additional criteria, targets primarily ELI households
Section 202	Targets VLI households but because of additional criteria, targets primarily ELI households

Sources: Massachusetts Department of Housing and Community Development 2010b, Verilli 2008.

[20] There are also additional state programs that existed previously and were responsible for the creation of many of the existing affordable units for ELI households; these programs, however, no longer provide funding.

[21] Information based upon an interview with staff of the Community Economic Development Assistance Corporation.

The state and federal Low Income Housing Tax Credit (LIHTC) program offers developers the opportunity to serve households earning 60, 50 and 30 percent of AMI. The LIHTC program awards developers state and federal tax credits that can be used to leverage investor capital. The state Qualified Allocation Plan (QAP), which governs the distribution of tax credits, includes a set aside requiring either 10 percent or 15 percent of units to be targeted to households earning 30 percent AMI and an additional preference for projects targeting 25 percent or more units to ELI or homeless households (MADHCD 2010).[22]

Despite the state requirement to serve ELI households, LIHTC investors are often reluctant to finance projects with ELI units.[23] Therefore, using the LIHTC for an ELI development requires significant work on the part of a developer to secure investors and allay their concerns regarding the impact of providing housing for ELI households in a mixed-income environment.

The Commonwealth's Affordable Housing Trust Fund (AHTF) provides capital funding for affordable rental unit development with a set aside requiring that 15 percent of funds serve ELI or homeless households (MassHousing 2007). The AHTF program requires that affordable units serve households earning less than 110 percent of AMI and gives a preference to projects that serve households

[22] Developments receiving 9 percent tax credits and developments receiving four percent tax credits, where the majority of units are affordable, must target 10 percent of units to ELI households. Mixed-income developments with 50 percent or more market-rate units receiving four percent tax credits and using tax exempt bonds must offer 15 percent of units as affordable to ELI households. Additionally, the state's 9 percent tax credits offered on a rolling basis include a preference for projects including 25 percent or more units targeted to ELI and homeless households.

[23] This information is based on an interview with staff from the Community Economic Development Assistance Corporation. This reluctance is discussed in chapters three, five and seven.

earning below 30 percent of AMI or that serve formerly homeless households. To encourage the development of these units, developers may exceed the usual cost allowance of $50,000 per unit (MADHCD 2006). Many developments using the AHTF program also utilize other subsidies in order to serve households under 30 percent of AMI.

The state Housing Innovations Fund (HIF) provides funding for single person occupancy housing, housing for special needs populations, and limited equity cooperatives. Twenty five percent of units created through HIF must be affordable to ELI households.

The state's Community Based Housing program targets people with long-term or permanent impairments and who are at risk of institutionalization. While eligibility is limited to households earning 80 percent of AMI, because of other program requirements, resources are targeted to ELI populations earning 15% of AMI, earning only Social Security Income (Massachusetts Department of Housing and Community Development 2008; Verilli 2008). Likewise, the state's Facilities Consolidation Fund targets clients of the Departments of Mental Health and Developmental Disabilities who are living in or exiting institutions, are awaiting placement in a residential facility, or are homeless. The vast majority of these clients also have extremely low incomes.

At the federal level, HUD funds the Section 202 Supportive Housing for the Elderly and the Section 811 Supportive Housing for Persons with Disabilities programs. Households must earn at or below 50 percent of AMI to access the

Section 202 and Section 811 programs, however, the programs serve primarily ELI households.

Obtaining Operating Funding

A developer must also secure operating funding in order to offer rent levels that are affordable to ELI households. Housing for low income households often does not include operating subsidy because rent is made affordable by setting a reduced flat rent. The difference between the tenants' rents and the building's operating cost is subsidized by the capital subsidy that reduces the initial debt, and consequentially the ongoing debt payments included in the operating cost of a building. In a mixed used development, flat rent units can also be internally subsidized by surplus income from market-rate units.

Flat rents are generally unaffordable to ELI households because rents are usually set at 30 percent of household income, which is unaffordable to households at 20 or 10 percent of AMI. [24] To make units affordable to ELI households, developers generally rely upon federal or state operating assistance that allows a household to pay 30 percent of its income towards rent. For units where rent is 30 percent of income, a federal or state subsidy usually pays the difference between tenant rent and the operating cost of the unit. Alternately, a developer that has not secured operating assistance may require that an eligible tenant provide a tenant-based voucher to subsidize operating costs. Without

[24] Information based on interview with staff of the Community Economic Development Assistance Corporation.

layering of capital and operating subsidies, ELI households in affordable units would not be able to afford rents (Stone 2006).

Operating subsidies are awarded by the state and federal government on a competitive basis. State and federal operating subsidies include:

- Section 8 Project-Based Contracts (federal)
- Massachusetts Rental Voucher Program (state)
- Section 811 Project-based Rental Assistance Contracts (federal)
- Section 202 Project-based Rental Assistance Contracts (federal)

Section 8 project-based contracts provide operating funds in the amount of the difference between the developer's cost of providing a unit and 30 percent of a tenant's income. The state awards these funds, often in conjunction with capital financing awards, on a one to five-year renewable basis. The state Massachusetts Rental Voucher Program (MRVP) program also funds project-based units that operate similarly to federal Section 8 project-based contracts. HUD provides project-based operating assistance contracts for the Section 202 and Section 811 programs in conjunction with capital awards.

In addition to project-based operating assistance, some developers rely on ELI tenants to provide their own tenant-based subsidy to make a unit affordable. Tenant-based subsidies allow tenants to select a market-rate or partially subsidized unit within certain rent guidelines and pay only 30 percent of this income towards rent; the administering agency contracts with the landlord to pay the balance of rent.

Section 8 Housing Choice Vouchers can serve households up to 50 percent of AMI but 75 percent of vouchers must serve households earning 30 percent of AMI or below (HUD Program Requirements 2010). The state also

funds several tenant-based voucher programs, including the Massachusetts Rental Voucher Program (MRVP),[25] the Alternative Housing Voucher Program (AHVP), and vouchers provided through the departments of mental health and developmental services. Additional operating funding for units affordable to ELI households also comes from the federal McKinney-Vento homeless assistance program, which serves persons who have experienced homelessness. McKinney-Vento provides three permanent housing programs: Shelter Plus Care, Supported Housing Program (SHP), and Single Room Occupancy (SRO) program.[26] The Shelter Plus Care program provides rental assistance and supportive services for disabled homeless households that are considered "hard to serve" and will need long-term support to maintain tenancies. The Supported Housing Program funds units with support services for homeless households. The Single Room Occupancy program provides rental assistance only to SRO units designated for homeless persons. Finally, the Massachusetts Home and Healthy for Good program serves chronically homeless individuals with rental assistance and intensive support services.

Acquiring Funding for Services

Developers interested in providing supportive services in affordable units must apply for service funding separately from capital and operating funding. State and federal programs offer funding for a range of services, including

[25] The Massachusetts Rental Voucher Program also allows project basing of vouchers; this is discussed later in this chapter.
[26] Under the HEARTH Act passed in May of 2009, these programs were changed and will be providing different services starting with the FY11 Notice of Funding Availability process.

medical, mental health, substance abuse, and independent living (Massachusetts Department of Housing and Community Development 2010b). Several state and federal housing programs require the coordination of services including the Facilities Consolidation Fund, McKinney Vento Grant programs, and the Home and Healthy for Good program. In order to provide services for units created through other programs, developers must secure funding from programs administered by the Commonwealth's Executive Office of Health and Human Services or the U.S. Department of Health and Human Services.

The additional step needed to provide services in conjunction with housing is complicated for developers unfamiliar with the human services funding system and can be a deterrent to offering supportive services in housing.[27] In some cases developers have partnered with service providers that are knowledgeable about these funding systems. In other cases, human service agencies have taken the initiative of becoming housing developers.

The following chart provides an estimate of the existing affordable units funded through capital and operating funds referenced in part two of this chapter. The chart provides estimates of annual new production of all affordable and ELI units for capital programs producing ELI units as of 2008.

[27] Information based on an interview with staff of the Community Development Assistance Corporation.

Table 2: Existing Affordable Units and Annual Production of All Affordable and ELI Units

Program	Existing Affordable Units Funded as of '08 (unless otherwise noted)	Estimated Annual New Production of All Affordable Units	New Production ELI Target	Estimated Annual New Production of ELI Rental Units
Programs producing new units in 2008 and 2009				
Section 202	9,700 (through '09)	140	Target population primarily ELI	140
Section 811	3,260	20	Target population primarily ELI	20
Community Based Housing	135 (through '09)	30	Target population primarily ELI	30
Facilities Consolidation Fund	2,158 (through '09)	125	Target population primarily ELI	125
Low-Income Housing Tax Credit Program	20,531	1,200 (actual '09)	10% or 15% of units for ELI	120
Affordable Housing Trust Fund	7,388	1,953 (actual '07)	15% of funding for ELI	140 (actual '07)
Housing Innovation Fund	10,500	500	25 % of units for ELI	125
Programs that did not produce new units in 2008 or 2009 or are operating only subsidies				
Federal Public Housing	33,599	____	____	____
State Public Housing	49,550	____	____	____
HUD Multifamily Program	63,626	____	____	____
Federal Section 8 Program	74,239	____	____	____
Massachusetts Rental Voucher Program	5,072	____	____	____
Alternative Housing Voucher Program	512	____	____	____
Total	***An unduplicated count of units is not available***	***3,968***		***700***

Source: The existing units based on 2008 figures, annual production estimates, Section 811 and 202 ELI estimates, and the program set aside requirements are from Verilli (2008). The 2009 figures are from the Massachusetts Department of Housing and Community Development (2010). The 2007 figures are from MassHousing (2008). Other annual ELI unit production figures were calculated by applying the set aside requirement to the annual production figure.

The annual new production of approximately 700 ELI units does not come close to fulfilling ELI need of roughly 50,000 units. Additionally, approximately

250 of the new ELI units require project-based or tenant-based subsidies to be affordable to ELI households.

Conclusion

While housing stock for ELI households increases slowly, ELI needs continue to increase at a much faster pace. This shortage is exacerbated by the number of affordable units that are not available because they are occupied by households with higher incomes. ELI households have disproportionately fewer housing options and more housing problems than low and very low income households (U.S. Department of Housing and Urban Development 2007). Characteristics of the ELI population such as disability and low educational attainment make it unlikely that income levels and housing needs will decrease (U.S. Bureau of the Census 2000, 2005, 2008a).

The Commonwealth invests equal amounts of funding to provide emergency shelter to ELI households as it spends on providing housing for ELI households. Sheltering households is more costly than providing a unit of housing to these households. The ELI production process requires developers to apply for and layer multiple types of funding sources to create units. Lengthy community approval processes also complicate the ELI development process. The shortage of ELI units, static ELI incomes, disproportionate cost burdens for ELI households, and complicated development conditions make this investigation into ELI housing timely and critical.

The next chapter reviews the current literature on developing housing for low income households to understand the challenges of providing housing for all low income households as well as the most economically vulnerable households.

Chapter Three: Research on Developing ELI Housing

The significant shortage of rental housing affordable to low income households, especially those with extremely low incomes, described in Chapter Two has been well documented by many authors. These authors agree that closing the gap between the present supply of affordable rental housing and the number of low rent units needed is a challenge, given both the shortcomings in the market and the inadequate response of the federal government. However, despite the attention given in the current literature to the challenges of developing affordable housing in general, there is a significant lack of exploration of the challenges that are specific to developing housing affordable to households with the lowest incomes. This chapter describes perspectives in the current literature on the need for affordable units, shifts in housing policy needed, and the challenges of funding the development of affordable housing for low income households. The chapter then explores the missing discussion of the challenges particular to developing housing for ELI households.

Mismatch of Low Incomes and High Rents

Several authors discuss the shortage of units affordable to low income households that results from the failure of the market to align with household incomes, the decline in federal funding to subsidize housing over the last three decades, and the loss of existing affordable units over the last ten years (Bratt, Stone and Hartman 2006; Schwartz 2010; Apgar and Narasimhan 2008). The Joint Center for Housing Studies reports that, nationally, incomes have decreased

while rents have increased over the past decade, in part due to a rise in the cost of constructing new units (2010). This mismatch of incomes and housing costs has resulted in escalating cost burdens for households. Although in 2002, only one in four households was severely cost burdened, in 2010, one in three households was severely cost burdened, the Joint Center states. While rents across the U.S. have decreased during the economic downturn of recent years, the number of units with rents at $600 per month or below has remained the same, as was discussed in Chapter Two.

The disparity between incomes and rents affects a tremendous number of households. According to the Joint Center, over 40 million households pay more than 30 percent of their income toward rent, and over 18 million households spend more than 50 percent of their income on rent. Forty-five percent of the households spending more than 50 percent of income on rent earn in the bottom income quartile and many of them have extremely low incomes (Joint Center for Housing Studies 2010; 2006). The Joint Center reports that only one-quarter of these households receive housing subsidies, resulting in a significant rent burden for the majority of other poor households that are spending more than 50 percent of their income on rent.

Housing Policy Changes

Contemporary authors agree that the nation's current housing policies do not reach ELI households (Bratt, Stone and Hartman 2006; Stone 2006; Marcuse and Keating 2006). Bratt, Stone and Hartman call for an overhaul of federal

housing policies in order to significantly improve the housing problems experienced by households with low incomes, with worst case housing needs, and those without homes (2006). Market forces, claim the authors, promote housing consumption of large lots and large houses, which are unaffordable to low income households.

New policy changes should be designed to narrow the gap between the richest and poorest households, which has grown over the last several decades Policy changes should shift housing consumption patterns, recognize the importance of housing to social interactions and neighborhood well-being and effectively reach ELI households, the authors note. They point out that even the largest affordable housing production programs, such as the LIHTC and HOME programs, do not provide deep enough subsidies for developers to serve ELI households. Additionally, current housing policies, such as the demolition of public housing units under the HOPE VI program and allowing project-based Section 8 contracts to expire, have led to the loss of units affordable to ELI households. Aggressive and innovative policy change is necessary to serve low income households and particularly, ELI households, say Bratt, Stone and Hartman.

Other authors argue that housing policy change should include new methods for assessing need and determining supply (Stone 2006; Marcuse and Keating 2006). The current structure used by the federal government for measuring income status and determining rent payments assumes that households should pay 30 percent of their income towards rent and only after should apply

their remaining funds to other necessities. Stone asserts that the current method of measuring the gap between incomes and rents does not accurately represent housing needs (2006). He proposes first calculating the total cost of necessary household expenses such as food, clothing, and medical care, and then assessing a household's ability to pay rent. Stone argues that after paying 30 percent of income to rent, low income households end up with too little money to pay for basic living expenses, a state that he terms "shelter poverty."

Marcuse and Keating suggest that the current approach to determining housing need is also flawed. The authors say the shortage of affordable rental units is a crisis that needs reexamining as it has not been alleviated by either conservative or liberal housing policy approaches. They propose an alternate approach to determining the number of affordable housing units needed. Past approaches failed because they allowed the market to determine how much affordable housing is needed and used demand instead of supply policies. Marcuse and Keating argue that by approaching affordable housing need with a finite number of subsidized units, demand side policies have left unassisted a significant minority of poor households with worst case housing needs. Instead, the authors propose employing a supply side policy where the need is established first and a housing response of proportional measure is designed to address the need.

Challenges of Constructing Rental Units for Low Income Households

In addition to describing broader housing policy changes that are needed at the federal level, authors also discuss the challenges of constructing new affordable rental units. The Joint Center for Housing Studies reports that the value of land for a single-family home doubled between 1985 and 2008, driving up development costs (Joint Center for Housing Studies 2010). The Joint Center notes that although the nation's housing inventory is increasing, new rental housing construction, particularly multifamily construction has been limited. Most of the multifamily properties developed were large, higher rent properties, rather than units affordable to low income households (Joint Center for Housing Studies 2006). Affordable rental construction has declined since 2009, when the value of the Low Income Housing Tax Credit declined as a result of the economic downturn and removed an economic stimulus for developers to create affordable units (Joint Center for Housing Studies 2010).

Multiple authors point to the decline in federal funding for affordable housing as an additional significant challenge in producing a sufficient number of units for low income households (Schwartz 2010; Bratt, Stone and Hartman 2006; Joint Center for Housing Studies 2010; Dolbeare 2001). In particular, Schwartz discusses the range of federal programs that provides affordable housing and describes as a significant challenge, the decline in funding for these programs over the last three decades. HUD's budget authority decreased by 66 percent between 1977 and 2008, significantly impacting the federal government's ability to construct new low income housing. Schwartz argues that multifamily housing

is already more difficult to develop than single family housing because it is harder to finance. With the decline in value of the Low Income Housing Tax Credit during the recent economic crisis, the growth of the nation's affordable rental properties has slowed.

The lack of sufficient funding to cover capital and operating costs of affordable units for low income households is central to the challenges faced by private and public entities (Bratt, Stone and Hartman 2006; Dolbeare 2001; Khadduri and Wilkins 2007). Dolbeare and Khadduri and Wilkins assume that the private market cannot supply housing that is affordable to households at all income levels. They further agree that the supply of state and federal funding allocated to making housing affordable is not sufficient to reach households in need.

According to Dolbeare, the insufficient scale of federal affordable housing programs is responsible for the housing affordability problem faced by low income households. Dolbeare asserts that the federal government should address the gap in units affordable to ELI households. She argues that federal housing programs are not scaled to address HUD's, "worst case housing needs" population.[28] She cites as a turning point, the time in the early 1990s when federal funding levels for housing programs stopped increasing and instead began to decline, despite mounting need. Dolbeare asserts that increasing federal resources for affordable housing programs is necessary and also suggests raising household incomes as an alternative method to close the housing affordability gap. Raising incomes to the level at which households can afford modest rental

[28] HUD defines rent burden as paying more than 50 percent of household income towards rent.

housing could be accomplished by coordinating housing assistance with other federal assistance, such as the earned income tax credit, Social Security Income, and food stamp funding, to bridge the gap between household income.

Unaddressed by Dolbeare, however, is how to shift HUD resources to ELI development. She recognizes that federal investment is insufficient but instead suggests that additional non-housing resources be used to bolster household incomes and thus impact housing affordability challenges for the lowest income households.

Apgar and Narasimhan's discussion of the challenges of preserving existing properties adds an additional dimension to the difficulties of producing new affordable units (2008). In the ten year period from 1994 to 2004, 2.2 million affordable housing units were lost through demolition or the expiration of operating subsidy contracts. A lack of federal resources to reinvest in these properties is the primary reason for the loss of these units say Apgar and Narasimhan. The small-scale properties that have been lost are not being replaced with similar units that could be subsidized by the same level of operating contract funding. Instead, new construction focuses on units that are expensive and on larger properties.

Reaching ELI Households with New Development

Some housing researchers discuss methods for creating efficiencies in affordable housing development in order to reach ELI households (Basolo and Scally 2008; Khadduri and Wilkins 2007; Cooper and O'Hara 2003). Khadduri

and Wilkins explore barriers to using a range of rental housing development programs, including the federal Low Income Housing Tax Credit (LIHTC) program. Most rental subsidies, note the authors, do not allow owners to realize market changes in their properties since rents are restricted, and so relieve owners from having to compete with other properties. This is not the case with LIHTC, where credits are competitive and developments are mixed-income; LIHTC is structured so that owners must compete in the open market to rent non-affordable units. The authors believe this model of providing a credit, rather than funding ongoing unit operating costs, is more efficient because of market competition.

Khadduri and Wilkins propose deepening the affordability of LIHTC by combining multiple funding sources. Despite acknowledging that operating assistance could make the units created by the LIHTC program affordable to ELI households, the authors do not thoroughly explore the challenges and barriers of using the LIHTC program to produce ELI units.

Cooper and O'Hara suggest a different approach to serving ELI households, that of increasing efficiencies in affordable housing programs. Rather than look to non housing resources to serve ELI households, these authors propose structural changes to funds offered by state Housing Finance Agencies that would deepen the affordability offered by individual housing programs. They discuss strategies for providing housing through state housing agency funding for people earning SSI, approximately $6,500 a year.[29] For these households whose only income is SSI, even Brooke rents, which require a household to pay no more than 30 percent of its income towards rent, leave households with very little

[29] This was the rate of Social Security Income at the time the article was authored.

income to spend on other necessities.[30]

Cooper and O'Hara claim that state housing agencies can offer even deeper affordability than Brooke rents by combining existing funding sources for capital and rental assistance. Capital grants and rental assistance awarded individually do not enable development of a hard ELI unit, say the authors. It is the lack of coordination between these funding sources that prohibits the development of units affordable to ELI households. Coordinated funding, say the authors, would supplement capital funding that alone does not allow developers to write down debt sufficiently to provide ELI rents with operating subsidy.

Bringing together funding sources requires consistency among various state level plans including Consolidated Plans, Public Housing Authority Plans and Qualified Application Plans, say Cooper and O'Hara. The concept of synchronizing funding streams is discussed by housing policy experts, practitioners, and philanthropists. Most commonly, they focus on the integration of capital, operating, and service funding for supported housing (Regan 2007). Cooper and O'Hara emphasize that individual states have the responsibility to target funding sources more deeply than federal regulations require in order to serve ELI households. Additionally, they argue that the states have the ability to increase production of ELI units by creating policies that shift resources to this population. Other scholars discuss the states' roles in increasing affordable production, but not for ELI units specifically (Basolo and Scally 2008).

Cooper and O'Hara's discussion is unique because few authors approach

[30] As mentioned in chapter two, the Brooke rent rule establishes affordability as paying no more than 30 percent of income towards rent.

the topic of ELI housing without also discussing supportive services. ELI households are often equated with populations with special needs, including people with disabilities, people experiencing homelessness, and victims of domestic violence.

Researchers also discuss the different roles of the for- and nonprofit sectors in production of affordable housing that serves ELI households (Bratt 1998, 2008). Bratt discusses organizational mission as a primary difference between the for- and nonprofit sectors, leading to different types of developments from each group (2008). Bratt says the nonprofit sector's strength stems from mission, which makes the organizations willing to engage in an administratively difficult development financing process.

Nonprofit developers, driven by their mission to revitalize low income areas, are more likely to produce units for special populations, including people experiencing homelessness and people with disabilities who need supported housing. For-profit developers, lacking this goal, are less motivated to serve special populations. In earlier work comparing the two sectors, Bratt also highlighted the mission of nonprofits as a critical advantage in serving low income households (1998).

Mission also motivates nonprofits to produce more affordable housing and housing for special needs populations than the for-profit sector, despite the for-profit sector's advantages of scale and financing. Blending the nonprofit sectors' skills in serving special populations and its understanding of the needs of particular neighborhoods with the proficiencies of the for-profit sector in

financing and production, would maximize the strengths of each industry. In turn, Bratt says, production of affordable housing could expand.

Bratt does not discuss creation of units for ELI households as a distinct activity. Units for special populations are likely serving ELI households; however, her discussion focuses on the nonprofits' motivation to serve a population based on its particular service needs rather than its economic needs.

ELI Housing Including Services

As in Bratt, research on ELI housing most commonly centers on housing for populations with special needs. Literature on special needs housing focuses on integrating supportive services into affordable units. Researchers say the primary challenges of integrating these services into affordable housing is the lack of service-specific funding and the difficulty of accessing and structuring the services funding to integrate into affordable housing units. Greiff, Proscio and Wilkins (2003) argue for restructuring state and federal funds to more easily integrate housing development and service provision. Assembling funding for housing with services is extraordinarily challenging. The authors say simplifying the process of accessing comprehensive service funding and capital funding would increase organizations' ability to produce housing for people who are homeless.

In an evaluation of a city-state partnership designed to provide supported housing, Houghton explores how the collaboration between multiple levels of governments enabled a successful partnership (2001). The agreement between

New York City and New York State was designed to create new supported housing units targeted to mentally ill persons experiencing homelessness. Both the City and State ventured into novel development roles; the New York State Office of Mental Health began to develop housing and New York City began to issue bonds to support housing development. These pioneering development activities enabled the City and State to create thousands of service enhanced single room occupancy and Community Residences with both funding and staffing commitments in hand. The city-state agreement, says Houghton, enabled the success of the development.

Houghton's discussion of the NY-NY agreement addresses Greiff's suggestion of integrating funding for supported housing development. Houghton's model, however, may not be applicable outside of New York City, as cities that do not receive dedicated allocations of housing funding from the State could not develop this partnership.

Greiff and Houghton's discussion of ELI development is limited to permanent supported housing. Their analysis focuses on decreasing the complexity of integrating services into units rather than barriers specific to ELI housing. The basic barriers to ELI housing development are embedded in the process of creating supported housing units, but are not identified separately.

Conclusion

Each of the issues of significant need, funding shortages, major policy revisions, production challenges, and integration of services into housing,

addresses housing that serves ELI households. Scholars highlight flawed policies that do not reach ELI households and discuss the significant lack of funding to address ELI housing needs. However, few authors discuss in detail, the challenges of creating ELI units separately from other general affordable housing units. Instead, the authors frame ELI development as similar to developing affordable housing for higher income households, or in relation to supported housing. There remains a significant gap in the literature about the challenges of developing units for ELI households.

The following chapter discusses barriers to creating ELI units that were identified by Massachusetts developers. Developer perspectives were necessary to more fully understand what, in addition to general financial barriers, capacity, and connection to services, prevents more ELI housing from being built.

Chapter Four: Research Methods

Given the lack of research on the topic, developer perspectives were necessary to further understand why ELI units are not being produced at a higher rate. An examination of state policies outside Massachusetts that encourage ELI development also illuminated effective ELI policy components. This chapter describes how developer perspectives on barriers to creating ELI units were gathered and how these findings guided the research on policies in other states that encourage ELI development; findings are discussed in chapter five.

Part One: Survey Methodology

Additional information was needed to answer the question of why more ELI units were not being developed. While academic literature and information from advocacy publications lacked sufficient detail on ELI development, organizations with on-the-ground development experience in Massachusetts were uniquely positioned to identify a full range of barriers and potential solutions to those challenges. This information needed to be assembled.

Data Collection Instrument

A survey was the most expeditious way to collect distinct, uniform, and comparable information on barriers directly from developers. Compared to other possible methods, a survey could reach a broader representation of developers, would require less of a time commitment from participants, and could provide more uniform and generalizable information.

Survey Instrument Development

The survey instrument was designed to elicit information on the barriers developers face and the solutions they identify as having potential, as well as the organizations' missions and interest in ELI housing, and the type of housing currently produced. Target respondents were staff employed by and able to represent a development organization. A draft survey was shared with a nonprofit developer, an affordable housing lender, and an affordable housing policy expert for comment. The survey was piloted with five developers.

The survey instrument contained four sections: 1) closed-ended questions on organizational interest and mission, 2) closed-ended questions to rate importance of barriers and open-ended questions on those barriers, 3) closed-ended questions to rate importance of solutions and open-ended questions on those solutions, and 4) closed-ended questions on annual production of units. The survey instrument is included as Appendix A.

Survey Participant Criteria

Information was needed from developers who had already created units that were affordable at some level. The survey target population was the entire population of Massachusetts developers who were likely to produce ELI units. A developer was considered "likely to produce ELI units" if the organization produced rental units at any level of affordability or was a member of a housing or community development membership organization. A list of developers connected to affordable housing development was assembled.

Four sources were used to identify developers likely to produce ELI units: the Massachusetts Association of Community Development Corporation's (MACDC) membership list, Citizens' Housing and Planning Association's (CHAPA) membership list, the Massachusetts Department of Housing and Community Development's (DHCD) current list of American Recovery and Reinvestment Act (ARRA) and LIHTC awardees, and development organizations participating in the HUD Continuum of Cares (CoCs). This combined list captured 106 developers throughout the state.

The developer list was narrowed by researching each organization's website in order to: 1) confirm the organization currently existed, 2) confirm the organization was currently developing affordable housing, 3) identify the region of the state that the organization served, 4) determine whether the organization had for- or nonprofit status, 5) identify the development contact person, and f) obtain the phone and e-mail of contact person. This information was compiled into a database. Several organizations who were not the primary developers of housing were eliminated through this process and 92 developers remained.

In the next stage of research, developers were called in order to: 1) confirm the organization was actively developing affordable housing if that was not apparent from the organization's website, 2) confirm or determine the appropriate contact person, and 3) speak with the contact in person to explain the survey, provide background information on this thesis, and secure the contact's agreement to participate in the survey. If a person was not reached directly, a message was left explaining the thesis. The contact person was sent a follow up e-

mail that was addressed individually to them; no mass e-mail requests were sent. Several additional organizations were eliminated because they no longer existed, were not reachable via published phone numbers or did not currently engage in housing development. This reduced the developer list to 81 operating, active, reachable housing development organizations.

Fifty-nine developers agreed to participate; 21 contacts were not reached via phone but were left voice mails describing the thesis, and one organization declined to participate because of an organizational policy of not participating in surveys. Surveys were therefore sent to 80 development organizations. The sample of 81 organizations (including the one organization that declined to participate) is representative of the target population of developers likely to produce ELI housing.

Since the survey due date turned out to coincide with DHDC's One Stop application deadline, a single mass e-mail reminder was later sent to developers to extend the survey deadline by four days.

Survey Analysis

Responses were evaluated in order to gain an understanding of the most prominent barriers and solutions to the development of ELI housing described by respondents. Key differences between creating LI/VLI housing and ELI housing were identified. Open-ended questions were grouped into themes.

Part Two: Policy Methodology

This stage of the thesis researched policies that could remove barriers that had been identified by the survey respondents.[31] Reviewing existing effective methods helped determine suggested policy directions for Massachusetts.

Policy Criteria Selection

Criteria that could address the barriers indicated in survey responses were developed; these criteria guided the search for policy models. A complete list of barriers was assembled, grouped into seven categories of similar responses, and weighted according to the frequency mentioned by respondents. Criteria for closed ended responses were assigned one point per response and criteria from open-ended responses were assigned three points per response because of the additional effort needed to provide the response. A list of the seven criteria is available in Appendix B.

Policy Research

The next step in the thesis was to identify policies from other states that met the seven criteria described above. To accomplish this, experts were first identified in states that had been discussed in the literature reviewed for this thesis.[32] The individuals worked for nonprofit statewide policy groups, had two or more decades of experience, and were recognized as knowledgeable within their field.

[31] For this thesis, polices were broadly defined as regulatory, non-regulatory or administrative guidelines or practices.

[32] Several additional state policy experts were suggested by staff of the National Low Income Housing Coalition. Discussions were held with those experts but policies in their states did not focus on ELI units or were not relevant to this thesis and so are not described here.

Each expert was asked whether the policy criteria matched their understanding of the challenges developers in their state faced. They were then asked to describe policies in their state that address some or all of the policy criteria and successfully encourage ELI unit development. Follow up questions addressed the policy's effectiveness in creating ELI units, the effort invested in crafting the policy, and the replicability of the policy. Sample questions are included in Appendix C. One policy per state was selected based on what the expert identified as having the most impact on ELI development.

Applicability to Massachusetts

The final stage of the thesis analyzed key common elements of policy models. These common elements of the models, along with survey findings and policy criteria, were used to form policy directions that could encourage ELI development in Massachusetts. Policy directions include actions the state Administration, law makers, and advocates could take to incentivize ELI production in the state, as well as areas for further research.

A housing policy expert from the Community Economic Development Assistance Corporation[33] was interviewed about the relevance and political feasibility of the proposed policy directions. The staff person interviewed administers funding to nonprofits to develop housing for ELI households. The staff person's perspective was used to narrow eight policy directions to six that would be most feasible and effective in increasing ELI development in the current

[33] The Community Economic Development Assistance Corporation is the Commonwealth's quasi public community development finance institution that lends funds to nonprofits to create affordable supportive housing for low income people with disabilities.

political and fiscal environment. The staff person also provided information on development challenges from the perspective of the Commonwealth.

The following chapter discusses barriers to creating ELI units that were identified by Massachusetts developers. Developer perspectives were necessary to more fully understand what, in addition to general financial barriers, capacity and connection to services, prevents production of additional ELI units.

Chapter Five: Developer Survey Findings

The survey of affordable housing developers in Massachusetts identified barriers that development organizations face in creating units for ELI households, as well as solutions to these barriers. Many of these barriers are known affordable housing development challenges, but survey findings illustrate a distinctive set of barriers to ELI development. Survey data fill a gap in information on ELI housing not discussed in the current literature. The following are key survey findings:

1) Organizations that are not producing ELI housing want to produce it; further, organizations producing ELI units want to produce more;
2) Most development barriers identified are distinctive to ELI units and are not as significant for LI/VLI units;
3) Financial challenges are paramount, particularly the depth of subsidy available and investors' apprehension in committing to ELI projects;
4) The predevelopment process is perceived as complicated, significantly cost burdensome, and extremely lengthy due to the Commonwealth's administrative process and local approval processes;
5) Integrating services into housing for ELI units is of high importance as is consistent funding and investor perception that ELI households require services.

This chapter describes the survey participation rate, trends in survey results, developer opinions gathered through open-ended questions, and the findings these results support.

Characteristics of Survey Respondents

The survey sample consisted of 81 for- and nonprofit organizations that represented the population of developers in Massachusetts likely to produce ELI

housing. There was a 61 percent survey response rate with 49 of the 81 organizations surveyed responding.[34] This is a high rate of response and suggests a high level of developer interest in the subject of barriers to developing ELI housing; phone conversations with developers prior to administering to the survey also suggested a high level of interest in the topic.

Nonprofit organizations represented the majority, or 88 percent, of the population surveyed, and for-profit organizations represented the remaining 12 percent. Responses were consistent with the population's division of for- and nonprofits; 90 percent of respondents were nonprofits, eight percent were for-profits, and two percent were unknown.

Table 3: Survey Participation by For- and Nonprofit Organizations

	Population N=81		*Respondents N=49*	
Nonprofit	71	88%	44	92%
For-profit	10	12%	4	8%
Unknown	0	0%	1	2%

The survey population was geographically distributed throughout the state with a higher number of organizations located in Boston, consistent with higher rates of development in the city.

[34] Two respondents were new organizations that had taken over development for the original contact organization. One survey response was anonymous.

Table 4: Geographic Distribution of Population and Respondents

Region	*Population N=81*		*Respondents N=49*	
Boston	32	40%	20	41%
Greater Boston	14	18%	9	18%
Central Mass	9	11%	5	10%
Western Mass	8	10%	7	15%
North Shore	8	10%	4	8%
South Shore	4	5%	0	0%
State-wide	5	6%	2	4%
Unknown	1	0%	2	4%

The geographical distribution of the population was consistent with respondents across all regions except two. A higher percentage of respondents, 14 percent, were from western Massachusetts than were represented in the population, 10 percent. There were no South Shore respondents despite this region representing five percent of the population.

Organizational Interest in ELI Housing

Respondents had a very high interest in developing ELI housing and increasing development of ELI housing. A surprisingly high rate, 94 percent, of respondents reported that their organization's mission included serving ELI households. Both for- and nonprofit developers include serving ELI households as part of their mission. Six percent of respondents said their mission did not include ELI housing and two percent said their organization did not have a mission.

Table 5: Organizational Mission
N=48

Mission	*Number of developers*	*Percentage of developers*
Includes serving ELI	44	92%
Does not include serving ELI	3	6%
Does not have a mission	1	2%

Seventy percent of respondents indicated that they already produce ELI units. The vast majority of respondents, 87 percent, indicated a desire to either start development of ELI units or increase production of ELI units. Sixty-two percent responded as "very interested," and another 33 percent said they would be "moderately interested." A high rate of respondents, 73 percent, also noted that their already high interest level would increase if barriers were addressed. Several respondents were satisfied with the distribution of income levels that their housing currently targeted; they cited this satisfaction as the reason that organizational interest level would not change.

Table 6: Organizational Interest in Starting to Produce or Increasing Production of ELI Units
N=45

Interest Level	*Number of developers*	*Percentage of developers*
Very interested	28	62%
Moderately interested	15	33%
Not interested	2	5%

Table 7: Change in Organizational Interest if Barriers Were Addressed
N=45

Interest Change	*Number of developers*	*Percentage of developers*
Yes, our interest would increase	33	73%
No, our interest level would remain the same	12	27%

Housing Produced

The majority of respondents produce a small number of developments and units (both affordable and market-rate) annually. Eighty-nine percent of organizations produce between just one and five developments per year. The majority of organizations, 83 percent, produce fewer than 50 total units per year; 63 percent produce fewer than 25 total units per year; and 37 percent produce fewer than 15 total units. Affordable units are produced at similar rates to market-rate units.

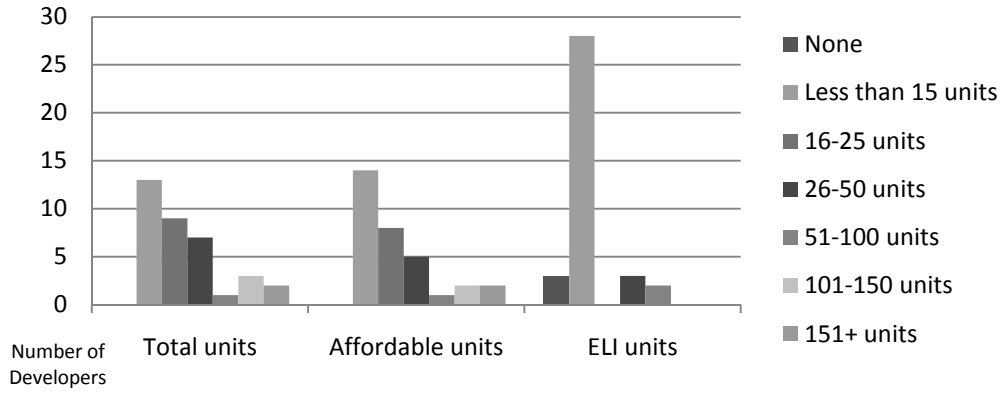
Table 8: Number of Developments Produced Annually
N=37

	1-5	*6-10*	*11-15*	*16-25*
Developments	33	1	1	1

ELI units are produced at a much lower rate annually than market-rate units or units affordable to VLI/LI households. The majority of respondents, 73 percent, already produce ELI units. Of these respondents, six percent produce between 50 and 100 ELI units annually, eight percent produce between 26 and 50

ELI units, 36 percent produce between six and 15 ELI units, and half produce fewer than five units annually.

Figure 1: Developers by Annual Production of Units
N=36



The units produced are roughly split between family sized and individual or couple sized units. Between 20 and 55 percent of respondents produce single person occupancy, studio or one bedroom units, while between 18 and 55 percent of organizations produce units for families (two, three, or four bedrooms or larger).

Table 9: ELI Unit Sizes
N=33

Bedroom size	*Number of developers*	*Percentage of developers*
SRO	10	20%
Studio	15	31%
1 bedroom	27	55%
2 bedrooms	27	55%
3 bedrooms	18	37%
4 bedrooms+	9	18%

State and federal project-based subsidies are the most used subsidies with up to 73 percent of respondents reporting using them. Fifty-five percent of respondents also use federal tenant-based vouchers as a source of operating

subsidy. Eighteen percent of developers indicated that they provide ELI units with flat rents and 27 percent of respondents indicated that they provide ELI units without an operating subsidy. Given operating funding concerns raised elsewhere in the survey, it is interesting that developers indicate providing some units without operating subsidies.

The most popular ELI unit subsidies indicated, listed in order of use, were the federal HOME program, the state Affordable Housing Trust Fund, the state Housing Stabilization Fund, the federal Low Income Housing Tax Credit, and the state Housing Innovation Fund. Ninety-seven percent of respondents use the HOME program and at least 73 percent of respondents use each of the other sources. Each of the other programs is used by between 33 and 58 percent of respondents, except for the Rural Housing Program, which is not used by any respondents.

Funding Barriers

Funding barriers received the highest percentage of both "most important" and "moderately important" responses of the four barrier categories. Respondents indicated insufficient capital subsidies, insufficient project-based funds, and the lack of depth of capital subsidies as the highest-rated barriers.

Table 10: Funding Barriers Rated by Developers
N=46

Barrier	*Rated Most Important*		*Rated Moderately Important*		*Total Most or Mod. Important*	
Capital subsidies not deep enough	24	52%	21	46%	45	98%
Insufficient capital resources	22	48%	22	48%	44	96%
Insufficient project-based resources	23	50%	18	39%	41	89%
Insufficient capital resources- special needs	16	35%	22	48%	38	83%
Insufficient tenant-based voucher resources	14	30%	19	41%	33	71%

Over 50 percent of respondents indicated that the inability of capital subsidies to bring down costs sufficiently to serve ELI households was a "most important" barrier and a deciding factor in their decision to develop ELI units. Nearly all respondents, 98 percent, thought this was either the "most important" or a "moderately important" barrier. Insufficient capital resources and insufficient project-based operating resources were also rated the "most important" funding barriers by 50 percent or more respondents. Nearly 90 percent of respondents rated these two barriers as the "most important" or "moderately important" barriers.

Insufficient capital subsidies for housing special populations was rated significantly lower than insufficient general capital resources. Considering the prevalence of supported services in the literature on ELI housing, it is surprising that only 34 percent of respondents rated insufficient capital subsidies for special populations as a "most important" barrier.

Respondents emphasized their concerns that capital subsidies are not deep enough to develop ELI units. In the open ended response, developers said that the $100,000 per unit subsidy cap is too low; one developer suggested that the cap be raised to $150,000 or $160,000 per unit to make it more feasible to produce an ELI unit.

Several respondents identified a lack of investor interest in ELI projects as a significant barrier in the open ended response. Investors are reluctant to invest in projects that rely on federal subsidies to cover operating expenses . The funding streams' perceived lack of predictability, because of reliance on state and federal appropriations, causes investors concern over the long-term operating feasibility of a project. Another developer notes that investors do not understand the ELI funding process and are not interested in evaluating whether ELI units are a worthwhile risk. Another respondent mentions that investors assume that ELI units need services attached to them and are not interested in dealing with the complexity of integrating services into units.

While several comments acknowledge difficulty with the LIHTC program that is particular to the current market downturn, most comments refer to longstanding issues with LIHTC investor support. Respondents said that it is difficult to put together a LIHTC project that includes a substantial number of ELI units because LIHTC investors are reluctant to support projects that use project-based subsidies.

Developers also noted that small-scale projects are difficult for an organization to develop and manage. The same level of planning and

administration is required regardless of the number of units produced in a development. Producing multiple small developments requires multiple individual planning and management efforts. Several respondents also mentioned that for small scale projects that cannot access LIHTCs, project-based vouchers are even more critical.

Administrative Barriers

Respondents commented that the lack of formal connection between housing and services funding is a significant concern. Respondents rated difficulty integrating service funding with capital and operating sources as the most significant administrative barrier. Seventy percent of respondents rate this as a "most important" or "moderately important" barrier.

Table 11: Highest-Rated Administrative Barriers
N=43

Barrier	*Most Important*		*Moderately Important*		*Total Most or Mod Important*	
Difficult to integrate service, capital and operating funding	12	29%	17	41%	29	70%
Difficult to coordinate capital and operating funding applications	7	16%	16	37%	23	53%

In the open-ended responses, respondents indicated that the predevelopment process is administratively burdensome. Respondents commented on several challenging aspects of the predevelopment process including the complicated funding application process, the level of competition that requires submitting an application to DHCD for two to three funding rounds

before it may be funded, and the disproportionate administrative burden of assembling funding for smaller projects.

Developers mentioned that due to complex application requirements, many organizations need to hire development consultants to prepare applications, which drives up the cost of ELI units. They also need sufficient funding to last through a lengthy, sometimes multi-year predevelopment process before receiving funding awards.

Lack of resident access to services in housing is a theme raised by a number of respondents. One concern mentioned is the lack of long-term commitment of services integrated into housing. If state or federal service program priorities shift, service funding is not guaranteed to be available for a tenant. Respondents also mentioned that services are not designed to coordinate with housing. One respondent said integrating service models into a housing program is a new concept for some funding programs. Developers indicated it is particularly challenging to integrate multiple services into multiple buildings. Another respondent mentioned that in the organization's experience the need for services for ELI households is assumed to be higher than it is in actuality.

Property Management Barriers

Respondents indicated that property management barriers are related to difficulty supporting tenants and difficulty coordinating services for tenants. Difficultly addressing resident needs to support tenancies rates "most important" or "moderately important" for 81 percent of respondents. Problems managing

tenant guests or additional occupants rates as “most important” or “moderately important” for 55 percent.

Developers also expressed concern about the level of coordination required to provide and manage services in the housing they develop. Respondents said that coordinating services requires coordinating multiple types of programs administered by multiple state and federal agencies. Developers and property managers must learn many different service models and determine how to integrate each type individually into housing. This concern is similar to the one raised regarding the complicated nature of integrating multiple service sources into an organization’s operations.

One respondent said developers and property managers do not know where to seek out services for people with moderate needs. This respondent added it is easy to identify a service partner and funding for people with disabilities or people who were formerly homeless; for tenants who need a lesser level of assistance, there is no clear service partner or funding source.

Community Barriers

Respondents indicated that community opposition is a challenge that results in increased financial burden and administrative delays and complications. The community barrier with the highest rating of “most important” was community perception that there is already too much affordable housing. Interestingly, community perception that there is no need or demand for affordable housing rated as “slightly or not important” for 63 percent of respondents. The perception that there is too much housing and the perception

that lack of demand is not an issue could indicate that communities understand the need for ELI housing but perceive their community has contributed to addressing this need already.

Challenges navigating zoning, permitting and other approval processes were rated as the second highest barrier. Community resistance to creating solely affordable properties was also rated "most important" and "moderately important" by 72 percent of respondents. In open-ended responses, community opposition is mentioned by several respondents as a significant barrier. Several respondents said that community opposition contributes to a lengthy predevelopment process and increases the total development cost of a project.

The barrier of an organization's mission not targeting ELI households is rated the lowest importance of any barrier with 88 percent indicating this is "slightly or not important." As described, 94 percent of respondents indicated that their organization's mission already includes serving ELI households; this is consistent with survey participants indicating a low concern for this barrier.

Comparing ELI Barriers to LI/VLI Barriers

Respondents indicated that most ELI barriers were not also barriers for LI/VLI development. No more than 30 percent of respondents rated any ELI barrier as "also important for LI/VLI" unit production.

Where there was overlap between ELI and VLI/LI development barriers, it was in the areas of community issues and funding. Thirty percent of respondents rated insufficient capital subsidies as a barrier for VLI/LI housing as well as ELI. Insufficient depth of capital subsidies was also considered a barrier for VLI/LI

housing by 28 percent of respondents. Property management barriers were rated the most unique to ELI households. Resident needs, rental subsidy requirements, high turnover, and high delinquency rates were also a barrier for VLI/LI households for between 18 and 21 percent of respondents. Only 14 percent of respondents thought that problems managing tenant guests/additional occupants was also a problem for VLI/LI households.

Table 12: ELI Barriers Rated "Also Barrier for LI/VLI" Unit Development

Barrier	*Rated "Most Important" ELI Barrier*		*Rated "Also Barrier For LI/VLI"*	
Insufficient capital resources *(N=46)*	22	48%	14	30%
Capital subsidies not deep enough *(N=46)*	24	52%	13	28%
Difficult capital/operating administrative requirements *(N=43)*	4	9%	12	28%
Challenges navigating local approval processes *(N=43)*	11	26%	12	28%
Difficult to understand range of development funding sources *(N=43)*	3	7%	11	26%
Community resistance to solely affordable properties *(N=43)*	8	19%	11	26%

Interestingly, the barriers that the most respondents rated as also barriers for LI/VLI development, were not necessarily of high concern regarding ELI development. The exceptions were depth of capital subsidies and insufficient capital resources, which were of high concern for ELI development and also considered a barrier for VLI/LI development. Administrative requirements and understanding the range of development sources were rated as also a barrier for LI/VLI development by a high percentage of respondents. However, those barriers were not rated "most important" ELI barrier by respondents.

Solutions to Barriers

Solutions related to financing, administration, and property management all emerged as important to respondents. While respondents' evaluations of barriers were dominated by financial issues, the importance of administrative and property management barriers were elevated in the discussion of needed solutions.

Table 13: Highest-Rated Solutions in Survey
N=41

Solution	*Rated Very Helpful*		*Rated Moderately Helpful*		*Total Very or Mod Helpful*	
Increased capital or operating funding	28	68%	10	24%	38	92%
Changes to capital subsidies	25	61%	11	27%	36	88%
Linking capital, operating and service funding	25	61%	12	29%	37	90%
Multi-year funding commitments	22	54%	17	42%	39	96%
Increasing targeting of funds to ELI	21	51%	12	29%	33	80%

Solutions are listed in order of those that received the highest ratings for "very helpful." In several cases, the combined rating of "very helpful" and "moderately helpful" indicates a different order to the priority of solutions.

Financial Solutions

Respondents indicated that increasing funding, changing capital funding to allow flat rents to be set lower, and linking services funding to housing funding were the most critical financial solutions. Increased funding for capital or operating resources was the highest-rated solution for 68 percent of respondents. This is consistent with the high rating the corresponding barriers received. Two

other solutions were also considered significant for 61 percent of respondents: changes to capital subsidies to allow flat rents to be set at 20 percent or 10 percent of AMI, and linking capital and operating subsidies with service funding. The high rating for capital subsidies is also consistent with respondents' high ratings of the corresponding barrier.

It is interesting that respondents rated linking capital and operating subsidies with service funding so highly. In the barriers section, insufficient funding for housing special populations was rated as "most important" by only 34 percent of participants. A high rating for this solution indicates that a significant number of developers are creating housing with services. It also indicates that the main challenge of supported housing is not financing but instead the administrative effort of linking these resources.

Over 50 percent of respondents rated increasing targeting of funds within existing capital resources as "very helpful," and another 29 percent indicated this as "moderately helpful." Considering the highly rated barrier of insufficient capital funding, it is surprising that more respondents do not rate this solution as "very important." This may be due to participants indicating that capital subsidies are not deep enough to serve ELI households. Another possibility is that organizations that are also creating housing for LI/VLI households could view increasing targeting to ELI development as a hindrance to LI/VLI development without an overall increase to capital funding.

Respondents rated multi-year funding commitments as the highest combination of "very helpful" and "moderately helpful" at 95 percent. Solutions

that would overcome the perceived lack of consistent funding were also mentioned in the open-ended responses. The solution of "changing use restrictions of existing subsidies" was rated "very helpful" by only 27 percent of respondents; when combined with "moderately helpful" it rose to 71 percent.

Administrative Solutions

Many administrative solutions focused on integrating services into housing. The high rating of many administrative solutions may imply that administrative barriers were more relevant than indicated in the barriers section. The two highest-rated solutions were linking the now-separate applications for capital, operating, and service funding into a single application and coordinating administrative requirements of capital, operating, and service funding sources. Over 55 percent of participants indicated that linked applications would be "very helpful" and another 29 percent indicated the solution would be "moderately helpful." Linking the applications would be a significant change in how these funds are administered currently. Aside from a few development programs targeting certain people with disabilities, service administration is not linked to housing funding. A coordinated application would indicate not just an administrative change, but a change in the goals of both housing and service programs. Only 32 percent of respondents indicated that coordinating the administrative requirements of these sources would be "very helpful," though another 53 percent think it would be "moderately helpful."

The lowest-rated solutions were those geared towards increasing staff knowledge or staff capacity. Only 16 percent of respondents thought that access

to development consultants or staff training on funding requirements would be "very helpful." Many more respondents, between 45 and 58 percent respectively, thought these solutions would be "moderately helpful." Similarly, the importance of guidance on a full range of funding sources was rated as "very helpful" by 29 percent of respondents and "moderately helpful" by 45 percent.

Open-ended responses raise questions about these percentages, however. Respondents often indicated that they faced challenges with predevelopment costs, staff expertise, and staff capacity contrary to what the percentages indicated. As mentioned earlier, several respondents indicated that the cost of hiring a consultant to assist with complicated development stages was a barrier.

Property Management Solutions

A high rate of respondents also indicated that property management solutions were "very helpful" and "moderately helpful." This contrasts to property management barriers that received high "slightly or not helpful" ratings. Linking services to housing was the primary focus of property management solutions; 44 percent of respondents indicated that funding for property managers to partner with services agencies would be "very helpful" and another 46 percent thought this would be "moderately helpful." Fewer respondents, only 30 percent, thought it would be "very helpful" to have training for staff on residents needs, though another 49 percent thought it would be "moderately helpful."

Community Solutions

Providing evidence of need for additional ELI units that developers could use as a tool to address community opposition was the highest-rated community solution. Forty percent of respondents indicated such evidence would be "very helpful" and 29 percent indicated this would be "moderately helpful." The majority of respondents thought that technical assistance with zoning, permitting, and other local approval processes would be "slightly or not helpful." Targeting ELI households in a development organization's mission was considered "slightly or not helpful" by nearly 70 percent of participants. As discussed earlier, the lack of interest in this solution may be due to organizations reporting that they already include ELI housing development in their missions.

Summary of Findings

Survey responses affirm that barriers discussed in the affordable housing literature including lack of funding and integrating services into housing are relevant to the specific context of ELI development. The survey responses also reveal additional barriers to developing ELI units. A more detailed understanding of how these relate to ELI housing is now apparent. There are five key findings that emerged from developers' survey responses.

The first finding is that there is untapped demand for creating ELI housing in Massachusetts. Organizations that are not currently producing ELI units are interested in producing units and organizations that currently produce ELI units would like to increase their production levels. Organizations that currently produce ELI units also have experience using the full range of capital and

operating subsidies offered by the state and federal governments. This high level of developer interest and untapped demand justifies this thesis's exploration of ELI barriers.

The second finding is that ELI barriers identified by developers are distinct to ELI development and are not barriers faced in LI/VLI development. No more than 30 percent of developers identified an ELI barrier as a LI/VLI barrier as well. Developers report that financial concerns are far more prevalent for ELI units than for VLI/LI units. Developers also cite community barriers as more significant for ELI units than for LI/VLI units. The additional barriers of ELI development have not been highlighted in the current housing literature.

The third finding is that, amongst the financial barriers that developers face, the depth of capital subsidy available for ELI units and investors' perceptions about ELI developments are paramount. Whether seeking to establish flat rents lower than 30 percent of AMI, produce a debt-free unit, or simply reduce the debt that will contribute to operating costs of ELI units, developers feel that the current funding sources do not provide enough depth to incentivize or even to make manageable the production of ELI units. In considering the concerns of investors, developers note that private investors perceive projects with ELI units as complicated and risky. Investors perceive project-based operating subsidy as uncertain because it is provided through short term contracts. Investors also assume that all ELI households require services integrated into housing, that obtaining service funding is administratively complicated, and that service funding is not reliable.

Another finding is that the administrative components of the predevelopment process are complicated, lengthy, and cost-burdensome. The complicated funding application process forces many developers to hire development consultants to assist with funding applications, which drives up total development costs. Costs are also escalated by the competitive nature and the complicated process of applying for funding, which requires that developers be able to hold project commitments in place through several funding application rounds before being awarded project funding. Developers also cite the community permitting and approval process as a cost driver. If there is community resistance to a project, the predevelopment stage can lengthen, increasing the cost of the project.

The final significant finding is developers' concerns about the availability and integration of services into housing. The primary concerns raised by developers are the various administrative components of managing service funding along with housing funding. Developers also raise dueling concerns of needing to integrate services into ELI housing while also needing to dispel the assumption that all ELI units need services integrated.

In the next chapter, these development barriers are translated into "policy criteria" for identifying policies and practices that address developer challenges.

Chapter Six: ELI Policy Models

This chapter translates survey barriers into policy criteria and applies these criteria to models from other states that have increased production of ELI units according to a policy expert in each state.

Policy Criteria

Seven criteria for development of ELI housing were derived from the survey analysis. The seven criteria are listed in order of the importance developers assigned each of the barriers and solutions that informed the criteria. A full chart is included in Appendix B.

Table 14: Policy Criteria for ELI Development

Criteria	*Area*
Criterion 1: Increases funds for ELI units	Funding
Criterion 2: Links service funding to housing	Administrative
Criterion 3: Increases depth of subsidy for ELI units	Funding
Criterion 4: Ensures funding consistency	Funding
Criterion 5: Reduces delays based on community opposition	Community
Criterion 6: Eases challenges of small developments	Administrative
Criterion 7: Reduces length of predevelopment process	Administrative

Policy Models

Housing policy experts were contacted in each of the four states identified in the literature review as a leader in affordable housing policy. Each expert was asked to identify several policies that increased ELI development in their state. One model policy from each state was chosen to be evaluated for its effectiveness in producing ELI housing. A description of each model, its funding structure, the type of units produced, and the unique community and political environment that

supported the policy development and implementation follows. These descriptions are based upon the policy experts' interpretation of the policies' development and effectiveness.

California Model[35]

In California, a state policy carried out jointly by the Departments of Mental Health (DMH) and Housing and Community Development (DHCD) and the California Housing Finance Agency (CalHFA) links services and housing for people with disabilities who are predominantly ELI. The Mental Health Services Act, known as Proposition 63, was enacted in 2004 and authorized an array of mental health services through the Department of Mental Health. Housing is a key component in the State's vision statement and guiding principles for the Act. In 2006, two years after enactment, an executive order of the Governor established the Mental Health Act Services Housing Program. The Act's Housing Program goal was to develop 10,000 new permanent supported housing units for people with mental health needs over a 20 year period.

Funding- The program is funded through a new source of dedicated tax revenue, created specifically for Proposition 63. The State introduced an income tax that charges one percent on each dollar earned over one million dollars. Advocates urged that the funding for the program not be in the form of bonds, which would limit expenditures to capital costs and could not be used for

[35] Information on the California Model was provided by Julie Spezia and Zach Olmsted of Housing California.

operating and service funding. Ten percent of the one percent tax was set aside for development of affordable units.

The State set aside $400 million of the Act's funding for the Housing Program. Funds were allocated to County Mental Health Departments, which in turn allocated the funds to the CalHFA. Counties submit applications to the State on behalf of, or in partnership with, a developer proposing a project. All funding decisions are made jointly by DMH, DHCD and CalHFA; DMH reviews the services portion of the application and the other agencies review the housing portion of the application.

Units- The program funds a variety of types of housing units. The State also considered funding rental subsidies, construction costs, or bonding. A decision was made by taking into consideration the cost, length of time, and number of units each method would achieve over a 20 year timeframe. Supported service costs were incorporated into operating costs instead of production costs.

The program funds capital expenses and capitalized operating and services costs with an upfront award supporting between 15 and 20 years of operation. Funds are provided in perpetuity; therefore, use restrictions will not expire. Developments are just starting to come on line since the first Housing Program awards were made in 2008. Units are targeted to households at 50 percent of AMI and below, but almost every development is serving primarily households below 30 percent of AMI. Awards made as of the end of 2009 included both developments that capitalized operating subsidy to support units and developments that provided the units without operating subsidy.

Community and Political Environment- Conceptualizing this policy and securing support for its enactment into law took multiple years. In California, settling policy decisions through voter initiatives is a common practice and so public opinion was critical to launching the program. The State's mental health services were in disarray and the public understood that it was necessary to restructure these services and fund them at a higher level. Advocates believed the public also demonstrated sympathy for people suffering from mental illness, who would benefit from the improvement and expansion of these state programs.

Gaining agreement on the program models took engagement from consumers, housing and services organizations, and state departments. Advocacy groups and ELI mental health consumers participated in a public process. The three state departments engaged in extensive dialogue on how they would work together, breaking down long standing silos in state program administration. The departments invested time in meeting with each other to find a common language that bridged the two types of resources provided, housing and services.

Identifying a funding source to propose was somewhat simpler. Housing and services groups conducted polling on possible methods to fund the program and the tax on millionaires was the most popular method selected. The ballot measure received more than 60 percent of votes in 2004.

Aftermath- Although this was a State supported initiative, the governor tried to shift funding from the Act's revenue source, despite a non-supplant cause in the legislation. The governor's attempt was successful and some funds from the one percent tax have been diverted. In 2008, the State introduced a voter

initiative to further divert funds from this program that ultimately failed, proving that the public support demonstrated four years earlier remained strong.

Illinois Model[36]

In 2005, the state of Illinois crafted the Rental Housing Support Program (RHSP) to serve the neediest family and individual households, households earning below 30 percent and 15 percent of AMI. The state legislature passed a law to source new revenue specifically to fund this program that was entirely based on the City of Chicago's, the Low Income Housing Trust Fund. The program is administered by the Illinois Housing Development Authority.

Funding- To fund the RHSP, the state developed a new recordation fee[37] for documents filed on real estate transactions. All real estate documents were subject to this fee, including documents related to foreclosure. The county in which the papers are filed collects a $10 fee per document, retains $1 of the fee for administrative costs, and sends the $9 balance to the State. A portion of funds are allocated to the city of Chicago, a portion is allocated to the metro Chicago municipalities, and the balance is available throughout the State. In addition, the city of Chicago continues to contribute to its own recordation-driven Low Income Housing Trust Fund.

The funds are awarded to individual landlords in the form of a three-year operating subsidy that is project-based to their particular unit. Subsequent one-year renewals are available to maintain affordability. To facilitate a longer-term

[36] Information on the Illinois model was provided by Robert Palmer of Housing Action Illinois.
[37] A recordation fee is a fee charged to a person when they file a document that is recorded with a registry of deeds.

operating subsidy, the State set aside 10 percent of the total funds to make five-year awards to support an operating subsidy.

Units- The State began issuing the three-year project-based awards in 2007 and has issued three rounds; the first round of awards will come up for a one-year renewal in the coming year. Only one round of five-year grants has been awarded as sufficient funding needed to be accrued prior to making awards. 2010 marked the first year that the program was fully operational and granted funds at its maximum potential.

The program currently serves 3,000 people. This is a lower number than advocates anticipated since estimates were based upon the number of households served through the Chicago model, which focuses primarily on individuals. The state program serves significantly more family households; rents for those units are higher and funds serve a smaller number of households.

Community and Political Environment- It took advocates and law makers three years to enact the Rental Housing Support Program. Advocates began working on expanding the Chicago Low Income Housing Trust Fund model to a statewide model in 2002. Advocates explored an alternate funding source, including a shift of the State's real estate transaction tax from a flat tax to a progressive tax. The Chicago model of charging fees on real estate documents received the most support. The Rental Housing Support Program was the first statewide program funded from recordation fees drawn exclusively from real estate documents.

The statewide model was more popular since there was evidence of its success on a municipal level and support from Chicago administrators and advocates to expand the program. The support of the Illinois Association of Realtors was also key to and made it politically feasible to pass the bill. While there was community opposition, it was not significant enough to block or delay the creation of the program or the implementation of the tax.

New Jersey Model[38]

In the state of New Jersey, a Special Needs Housing Trust Fund serves ELI households and connects services to housing. The Trust Fund, inaugurated in 2006, is the second housing trust in the state; New Jersey also has an Affordable Housing Trust Fund that serves the general low income population. The Special Needs trust is administered by the New Jersey Housing and Mortgage Finance Agency. New Jersey is unique in that it is the only state that has a constitutional obligation to provide affordable housing.

Funding- The trust provides loans and grants from bond revenue for units in a range of housing types and locations. Grants are forgiven after a 30-year period, which ensures affordability through that time period. An applicant can apply for funding for up to 80 percent of the total development cost of a project. The State prefers to award these funds only after a developer has demonstrated diligence in seeking funds from all other appropriate public sources. The program was capitalized with $200 million during its first year.

[38] Information on the New Jersey Model was provided by Arnold Cohen of the Housing and Community Development Network of New Jersey.

Units- The trust funds both permanent supported housing units and community residences, similar to group homes. In the first three years of the program, 1,100 units were developed. The trust requires that at least 75 percent of units serve households earning below 30 percent of AMI. The balance of units may serve households earning below 47.5 percent of AMI. In New Jersey, households earning 30 percent of AMI are considered "very low income," instead of the term used at the federal level, "extremely low income." All units also have rental assistance provided.

Units must serve people with mental illness, people with a physical or developmental disability, people who are homeless, people with HIV/AIDS, people who have experienced domestic violence or ex-offenders. Project applicants are required to submit a social services plan to HMFA, which is the sole agency that reviews project applications and makes awards. The application must identify the service agency that will carry out the activities of the plan. Service plans must meet guidelines for service provision established by the State Departments of Human Services and Children and Families. The HMFA coordinates with these two agencies depending upon the population targeted in an application for trust funding. There is no additional funding within the trust to support these activities.

Community and Political Environment- The Trust was developed over a short period of time with significant legislative and administrative support. Special needs housing was a particular interest of the New Jersey Senate President when he was in the legislature. Shortly after becoming governor, the former

Senator urged state departments and the legislature to develop the program and pass legislation to enact it.

New Jersey municipalities have an obligation to provide affordable housing under the Mt. Laurel doctrine and the municipalities receive additional credits for developing units that serve special needs populations. For that reason, the trust received public support as a tool to help towns meet their obligations more quickly.

Connecticut Model[39]

In 1993, the state of Connecticut initiated an inter-departmental initiative to facilitate the development of ELI housing that includes services. The Connecticut Housing Finance Agency (CHFA) administers housing funds in collaboration with five additional state agencies that make up an interagency working group. The agencies signed Memorandums of Agreement to collaborate on "packaged financing" awards for supported housing.

Funding- The CHFA provides capital, operating, and service funding through a single application and award system. The interagency working group reviews applications and makes awards. While the collaborative model was carried out at the administrative level, the state passed bills that support different elements of the combined financing model. The State initially used $20 million in

[39] Information on the Connecticut model was provided by Diane Randall of the Partnership for Strong Communities.

surplus general funds for the packaged financing and later issued general obligation bonds and 501(c)(3) bonds.[40]

The program was built through a three-staged process; funds were originally contributed from both state and federal sources but eventually were only drawn from state sources. The first stage was a demonstration program that utilized funding from both federal sources including LIHTC and HUD's Rent Supplement program and state service dollars. The second stage, the pilot initiative, used federal Shelter Plus Care funds, supplemented with state operating and state service funds. By the time of the third phase, the Next Steps Initiative, was implemented; all funding was contributed by the State.

Initially, when the collaboration relied on the Low Income Housing Tax Credit to produce units, the State funded operating reserves to ensure that units were affordable to households below 30 percent of AMI. Developers insisted that LIHTC could only subsidize development costs enough to make rents affordable to households between 30 and 60 percent of AMI and said that additional operating subsidy was needed.

Units- Eligibility for these units is based on a household member having a special need or on income eligibility. In the first phase of the packaged financing model, half of units funded were targeted to special needs households who were also ELI and half were targeted to ELI households without special needs. Special

[40] "Qualified 501(c)(3) bonds are tax-exempt qualified private activity bonds issued by a state or local government, the proceeds of which are used by a 501(c)(3) charitable organization in furtherance of its exempt purpose."(IRS 2002). A general obligation bond is a "government bond issued with the government's commitment to use its full taxing and borrowing authority (and other revenue resources) to make timely payment of interest and principal. Bonds issued by government agencies (municipalities, for example) may not have this power, and may rely only on the revenue from the project (to finance which the bond was issued). Also called full faith and credit bond." (http://www.businessdictionary.com/definition/general-obligation-bond.html).

needs populations include people with mental illness, people with physical and developmental disabilities, and people with HIV/AIDS. A range of support services are available to all ELI tenant households, regardless of whether households fall into a special needs category. Units remain affordable for a period of between 30 and 50 years.

Community and Political Environment- The initiative was led jointly by advocates, the Administration, and the state senate. The Senate President and the Secretary of the Office of Policy and Management both had a personal interest in supported housing. The formation of the state's Community Mental Health Strategy Board maintained the state administration's and legislature's focus on integrating these resources and producing supported housing units.

The collaboration between agencies and the restructuring of housing and funding streams also improved housing developers' approach. The restructuring of funds has built the capacity of developers to manage complex projects and these developers now view supported housing development as attainable and attractive.

Aftermath- While the partnership has increased the State's and developers' understanding of how to develop housing for ELI households that includes services, not all stages of collaboration were smooth. It took CHFA time to develop a sophisticated system of managing the distribution of capital, operating, and service funding. This required new coordination on the State's part in order to keep up with appropriations cycles and different rates of fund utilization. The coordination that developers needed to learn in order to provide

services in housing was the same skill the State needed to master. Staff of state service agencies participating in the interagency working group gained great understanding of the housing development process, but often thought that a simpler, quicker solution of providing rental assistance could serve the target population just as well. Expanding Connecticut's existing model to develop additional ELI units with state funds may be difficult. Advocates plan to urge the Administration that the interagency group should evaluate and administer other development funds as well. Without a firm commitment of operating subsidies to accompany new capital dollars, it is unclear whether CHFA will underwrite any new ELI projects.

Evaluating Models Against Criteria

Each policy model was evaluated to see how well it addressed the seven policy criteria of this thesis. As depicted by the chart below, each model addressed the criteria of providing additional ELI funding, increasing the amount of subsidy for ELI units and providing funding consistency at some level. The California and Connecticut models both addressed links to service funding and the predevelopment criteria. The Illinois and New Jersey models addressed challenges of smaller scale developments. Only the Illinois model addresses some of the issues faced by small developers by providing a rental assistance model that can work in small properties; this model, however, does not resolve the majority of concerns raised about development of small properties including administrative burdens and investors issues. None of the models addressed the criteria of reducing delays based on community opposition.

Table 15: Do Models Address Policy Criteria?

	California	Illinois	New Jersey	Connecticut
Criteria 1: Increases funds for ELI units	X	X	X	X
Criteria 2: Links service funding to housing	X		X	X
Criteria 3: Increases depth of subsidy for ELI units	X	X	X	X
Criteria 4: Ensures funding consistency	X	X	X	X
Criteria 5: Reduces delays based on community opposition				
Criteria 6: Eases challenges of small developments		X		
Criteria 7: Reduces length predevelopment process	X			X

Common Elements of Models

Developing Political Will- In each case, a significant amount of political will driving the development and implementation of the model. California's and Illinois' momentum grew largely from advocates, but both processes had the extensive involvement and cooperation of the respective administration. For California, significant support from state residents was generated by the administration and advocates conveying that the mental health system needed reform. Funding strategies in California were also based upon methods that polled positively with voters. This initiative was also unique because it became law through a referendum process, decided by voters rather than the state legislature and because housing was only one component of a much broader set of concerns that was addressed.

New Jersey's and Connecticut's models were both implemented successfully because they had the political support of strong legislative and

administrative leaders working with advocates. In New Jersey, the Senate President, who became Governor used his influence with former legislative colleagues and new administrative colleagues to craft and enact the new trust fund. Similarly, the Connecticut Senate President and Secretary of the Office of Policy and Management were strong forces in appropriating funds and securing administrative cooperation for creating the Connecticut packaged financing model.

Targets Special Populations with Services- Three of the four models garner support for and launch new models involving services for special needs populations. Two of these models engage state departments that were not previously involved in housing development in the mission of creating supported housing. Another model coordinates with additional service agencies even without a close link between the funds. These models result in efficiencies for developers and state resources by coordinating disparate funding and administrative requirements. They also garner support from constituencies that were not previously engaged in advocating for housing as a service to special populations. The public support and political leadership for these models may stem from targeting special populations and the empathy elicited by the plight of those households in need, distinct from their ELI status.

Creating New Initiatives- Each of the models represented a new initiative for the State rather than changing an existing program. California, Illinois and New Jersey each launched new programs and, in some cases, funding sources that built political momentum and support for implementing the policies. While the

Connecticut model coordinated existing programs, the effort was marketed as a new "packaging" initiative. This new branding of initiatives and the ability to organize advocates and state policy makers around a new initiative appears to be a powerful component for each of these ELI development models.

Identifying New Funding Sources- Two of these models also identified innovative dedicated sources of revenue to fund the affordable housing models. For California, this was through a tax on millionaires, and for Illinois, this was taxing real estate transaction filings for the first time. Both of these initiatives were supported by key constituencies. In California, voters rated the millionaire tax as their preferred source of new revenue. In Illinois there was support from the largest urban area, which had already implemented a similar city wide tax, and from real estate industry trade groups, such as the Illinois Association of Realtors. California appropriated new funding outright and Connecticut targeted existing resources as well as appropriating new funding. A key component of the ability of these states to appropriate funding was that they were establishing novel initiatives. While California and Connecticut had programs in existence that addressed ELI housing, the creation of a new policy initiative allowed them to garner increased support and new funds for an existing challenge. While both the New Jersey and Connecticut models created new methods for developing supported housing, many of the resources were in existence. In part, the new initiative is what built the momentum to increase funding for ELI households.

Community and Political Applicability to Massachusetts

These approaches of state interdepartmental collaboration on housing, launching new ELI focused initiatives, and initiating new funding sources were successful because of a unique set of political, structural, and timing circumstances in each state. There are key differences between some of the community and political conditions that exist in California, Illinois, New Jersey, and Connecticut and the conditions of Massachusetts.

While Massachusetts does decide some policy positions based upon a ballot referendum process, this is not generally a method employed to enact significant laws or funding decisions as in California. There is also not as significant a level of attention to mental health issues in Massachusetts as there was in California, New Jersey or Connecticut. In California, a crisis of the state mental health service system spurred policy shifts; in New Jersey and Connecticut, personal interest of high ranking administrative and legislative officials established support for the states' initiatives.

The conditions that allowed California and Illinois to establish new taxes are also distinct from Massachusetts. California has a very high rate of residents earning significantly over one million dollars annually compared to Massachusetts; a millionaire tax in California could generate higher rates of revenue than in Massachusetts. In Illinois, there were no stamp taxes specific to real estate transactions unlike Massachusetts, which employs this form of taxation for multiple uses on multiple types of documents. The Illinois tax was also instituted at a time when many people were purchasing homes and the tax both

seemed reasonable to the public and could generate significant profit. Given current declines in home sales and increases in foreclosures, attempting to institute such a tax now could be less popular and less profitable. The current trend of political leaders across the country of promoting tax cuts and limits to taxation would also make taxation as a new form of revenue a more difficult approach.

Lastly, New Jersey has a unique obligation within its state constitution to provide affordable housing. This obligation motivates residents to support new state housing production tools. Massachusetts General Law Chapter 40B could serve as a similar motivator in Massachusetts; however, currently the statute does not have New Jersey's level of support and is not geared towards ELI housing production.

Because the policy conditions varied from state to state, similarity of a state's policy conditions to that of Massachusetts may not determine a policy model's replicability or success. These varied community and political conditions required a unique approach to implement each state's ELI housing policy and led policy experts to characterize them as successful policies for increasing ELI units.

In the next chapter, these methods and their common strengths will be integrated with perspectives from the literature, survey findings, and policy criteria to identify new directions for housing policy in Massachusetts.

Chapter Seven: Massachusetts Policy Directions

The challenges of creating policies to encourage the development of ELI units in Massachusetts are illustrated through data on housing units, perspectives of authors on affordable housing development, barriers identified by developers, and models in other states. This chapter presents policy directions for encouraging ELI development that are based upon a synthesis of the data sources discussed in earlier chapters.

Integrating Themes from Literature, Surveys, Policy Criteria and Models

The most prominent challenges to housing development discussed in the affordable housing literature were the lack of sufficient funding and the difficulty of incorporating services into housing. Lack of funding was identified as a challenge for affordable housing development in general. The discussion of linking funding for housing and services focused on ELI special needs populations. While discussion of ELI housing is woven into the literature on affordable housing development, the distinctive challenges of ELI development are not addressed.

The findings of this thesis have reinforced and elaborated on the development challenges raised in the housing literature. Developers affirmed that financial issues were paramount concerns. In particular, developers emphasized the insufficient depth of subsidy particular to ELI development and the difficulty of attracting investors to ELI projects. Another survey finding related to the

literature was that of integrating services into housing, which emerged as a high priority for developers.

Survey findings also increase the understanding of three challenging areas of ELI housing production. First, virtually all developers surveyed expressed interest in starting to produce or increasing the production of ELI housing, which reveals a clear opportunity for the Commonwealth. Developer interest makes this thesis even more relevant; motivation to develop ELI housing exists and reducing specific barriers could result in the creation of more units.

Second, the survey confirms that developers find ELI barriers to be distinct from VLI/LI development barriers. Developers indicated that only a few ELI barriers are also faced in VLI/LI development, which establishes a distinct set of challenges for ELI development.

Lastly, survey responses indicate that the predevelopment stage is a particularly challenging phase of ELI development. Challenges in coordinating funding applications and navigating community opposition are reasons why more projects do not include ELI units.

The survey responses provided the basis for the seven policy criteria used to evaluate the ELI policy models explored in other states. Policy criteria included: 1) increases funds for ELI units, 2) links service funding to housing, 3) increases depth of subsidy for ELI units, 4) ensures funding consistency, 5) reduces delays based on community opposition, 6) eases challenges of small developments and 7) reduces length of the predevelopment process.

The four state policy models provided several strategies worthy of replicating in Massachusetts. Strategies common to the California, Illinois, New Jersey, and Connecticut policy models were: 1) Leveraging political will. A high level of political will from prominent administration officials and legislators was key to garnering policy makers' and the public's support for the ELI initiatives; 2) Targeting special needs populations. Several of these initiatives integrated housing with services and built policy makers' and the public's support through public sympathy for the plight of people with special needs; 3) Creating new initiatives. The models each represented a new initiative focusing on ELI housing that had not existed before. This novelty led to multi-agency state level participation in increasing ELI unit production; and 4) Developing new funding sources. The models identified new dedicated funding sources for ELI housing.

These themes from the literature, findings from the survey, and the information gathered from conversations with policy experts are incorporated into the following policy directions for Massachusetts policy makers to consider.

Policy Directions for Massachusetts

The following are approaches that the Administration, law makers, and advocates can explore to increase ELI development in Massachusetts. These three groups of people are referred to as "policy makers," recognizing the role that each plays in developing and implementing state policy. Each policy direction is drawn from the literature, survey findings, policy criteria, and policy models. Several policy areas that have already been raised by practitioners and academics are discussed here, in light of the new information this thesis provides on those

areas. Several of the policy directions would expand the focus of an existing housing program to include ELI households; without program funding increases, such an expansion could mean shifting focus from higher income households to ELI households or producing fewer overall units in order to provide deeper affordability. Evaluating the impact of these trade-offs is beyond the scope of this thesis but would be necessary before implementing policy changes.

Policy Directions: Funding

Increase Availability of Operating Subsidy for ELI Units- The Commonwealth could allow and encourage capitalizing operating funding reserves from capital development programs to incentivize ELI unit development. An operating reserve could provide subsidy to deepen affordability for units in mixed-income developments that are partially cross subsidized but not able to offer ELI rents. It could also allow developers to lower the rents of units currently set at a 30 percent AMI flat rent; an additional layer of subsidy could lower flat rents to reach ELI households. By funding a portion of operating costs and eliminating the need to seek separate, full operating subsidies, developers may be more easily able to fund ELI units. It is important to note that this method would reduce the amount of capital funding available to generate new units. While fewer units would be funded, the number of ELI units created could increase.

This policy direction would address the policy criteria by increasing funding for ELI units and increasing the depth of subsidies currently offered. It is similar to the Illinois policy model that created a new funding source for ELI

housing. The policy direction also follows the suggestions made in the literature on increasing funding available for ELI households.

Address LIHTC Investor Concerns over ELI Projects- The Commonwealth could address the reluctance of Low Income Housing Tax Credit investors to support projects that include units for ELI households beyond the current 10 percent state level set aside requirement. This could be accomplished by establishing state incentives for developers that could include committing a certain number of project-based operating awards to LIHTC units if developers surpass the minimum ELI unit requirement by some significant amount.

In addition, as HUD attempts to make federal programs more congruent with the LIHTC program, the Commonwealth could press for a commitment of federal operating resources for ELI units in LIHTC projects specifically. The Commonwealth could also allay investor concerns about consistency of operating funding by increasing the length of project-based operating commitments that are currently one or five years. Advocates and the Administration could work with HUD to reinstitute longer-term project-based funding commitments of up to 20 years, which would ease investor concerns, guarantee affordability, and incentivize development. The Commonwealth could also move to a multi-year operating funding model in which appropriations of operating subsidies are made on a multi-year basis, thus allowing planning of funding commitments further into the future, reducing administrative process around appropriations, and increasing efficiency in state planning for housing development.

Other methods for addressing investor concerns could include educating investors on: 1) the success of LIHTC developments that include ELI units, 2) the available resources (services and community supports) for tenants and property managers to assist poor households in need of support to maintain tenancies, and 3) the actual rate of service need in the population, in order to dispel the myth that all ELI households need services. Sponsoring a formal evaluation of the impact of ELI units in LIHTC projects, compared to VLI and market rate units, could establish this evidence. Such evaluation and education methods could be particularly important in working with investors as the LIHTC market rebounds.

This policy direction would increase funding and increase the consistency of funds, two policy criteria areas. The Illinois model similarly increased funding commitments but for only three-year periods, providing a commitment that is longer than typical, but not as long as once existed in Massachusetts.

Increase Percentage of Existing Funds Dedicated to ELI- The Commonwealth could increase targeting of ELI households within all existing funding sources. A uniform set aside requirement for capital funding sources could increase ELI production; currently the production programs that produce the highest number of affordable units target the lowest percentage of units to ELI households. The set aside figure could reflect the proportional need by taking into account the number of households in need and the impact of cost burden on state resources and on households for ELI, VLI, and LI households. Increasing targeting would require shifting funding from low income units to ELI units; this targeting could accompany an effort to increase overall funding. This proposed

shift and estimating of housing cost burdens could be coordinated with the Commonwealth's efforts to reduce the number of households experiencing homelessness. In addition to increasing production for ELI units, this change would send a message that ELI development is a priority for the Commonwealth.

This policy direction would increase ELI funding specifically. It would also follow each of the policy models in making ELI funding a significant priority for state-level programs. The discussion in the literature on increasing funding and capitalizing on the nonprofit sectors' mission to develop ELI units is incorporated into this approach.

Policy Directions: Administrative

Expand the Responsibility for Providing Housing and Advocating for Housing Funding to Additional State Departments- Engaging state departments in addition to the Department of Housing and Community Development (DHCD) in advocating for specific housing funds could broaden the responsibility for providing ELI housing. Agencies that serve ELI populations could benefit from their consumers being stably housed, and the departments would be able to provide services in a more coordinated way. The Facilities Consolidation Fund and the Community Based Housing program facilitate this multi-agency engagement already and this model could be expanded. Encouraging non-housing agencies to adopt housing stability as a component of their service model could also strengthen support for increasing ELI housing funding. This emphasis on housing could include measuring a non-housing department's cost savings by serving people in permanent housing rather than in shelter, on the street, doubled

up, or in unstable tenancies. These cost savings could be identified and attributed back to DHCD to allow for increased investment in housing to serve these populations.

Linking service funding with housing capital and operating funding would also increase the commitment from non-housing agencies and alleviate significant challenges for developers. Multiple state departments could coordinate a single application for capital, operating, and service funding. Coordinating resources would limit administrative barriers and reduce costs in developing housing with services, thereby increasing the ability of developers to integrate services into housing for special needs populations. This method could also help address a component of LIHTC investor concerns since service funding would be guaranteed along with housing funding commitment. Massachusetts has effective small-scale capital programs for special needs populations that could be used as the basis for this model.

This policy direction would increase funding for ELI units and link funding applications and requirements for housing and services. Information on California, New Jersey, and Connecticut's experience with coordinating each state's departments administering supportive service and housing funding are incorporated into this policy direction. Extensive discussion on housing for special needs populations in the literature is also reflected in this policy direction.

Policy Directions: Community

Launch an ELI Program and Campaign- Policy makers could initiate a new component of an existing program that would specifically target ELI

households with new resources. The process to pass and implement this new initiative could draw public attention to and secure public support for the affordability plight of ELI households. Proposing a new program has proved an effective tool for increasing ELI housing resources in other states. In Massachusetts, in contrast, policy makers have worked to prevent parallel funding systems exclusively for ELI or homeless households, instead ensuring that mainstream programs serve ELI households. Policy makers could meld these two approaches by incorporating a distinct ELI component into an existing funding source. This would allow them to take advantage of the opportunity to galvanize support for ELI funding without creating duplicative housing funding programs. For instance, instead of proposing a second affordable housing trust fund that focuses only on developing ELI units, the Commonwealth could advocate for an ELI trust within the existing AHTF. An ELI component within the mainstream program could be stronger than the current set aside requirement and serve as the public face of a new initiative. Once National Housing Trust Fund resources are secured, they could be used to initiate an ELI-specific initiative within the AHTF.

This policy direction would increase ELI funding and reduce delays based upon community opposition. Each of the state models discussed used this strategy to garner support for increased funding for ELI housing. This policy direction also relates to the literature that discusses new supported housing initiatives.

Broaden Use of Comprehensive Permit for ELI Developments- Massachusetts' Chapter 40B comprehensive permit process allows developers to

bypass certain zoning restrictions if they are creating affordable housing units. The Commonwealth could promote the Chapter 40B comprehensive permit process as an avenue for ELI development. Many predevelopment concerns for ELI developments are addressed by the comprehensive permit process, yet the process is not regularly used to deal with the ELI developer barriers cited in this thesis. The New England Fund (NEF) subsidy used in conjunction with 40B currently incentivizes affordable housing development for low income households from many larger developers that do not otherwise produce affordable housing. The Federal Home Loan Bank of Boston (FHLBB) could provide additional, separate NEF funding specifically for developers that want to develop ELI housing with the comprehensive permit. Tailoring and promoting the comprehensive permit as a method for ELI development could increase the ability of developers of small projects to manage predevelopment and reduce community blockage of larger ELI housing developments. This initiative would require additional funding from the FHLBB in order to preserve the existing incentives to create low income housing. The Commonwealth could frame an ELI housing option as one method for reaching the threshold of providing affordable units under M.G.L. Chapter 40B.

This policy direction would address the policy criteria of reducing delays from community opposition, easing small development challenges, and reducing the length of the predevelopment process. New Jersey's community obligation and incentive to develop ELI housing is an example of how this type of incentive can be used to create ELI housing.

Further Research

Additional policy areas are raised in this thesis but are not explored in the policy directions described in this chapter. Researching and identifying new sources of public funding for ELI housing, providing additional support to developers to manage the costs and planning of the predevelopment process, providing support to developers creating small scale developments that are disproportionately costly and time intensive, and cultivating political will among the Commonwealth's leaders are critical issues that pose significant challenges to ELI development and warrant further research.

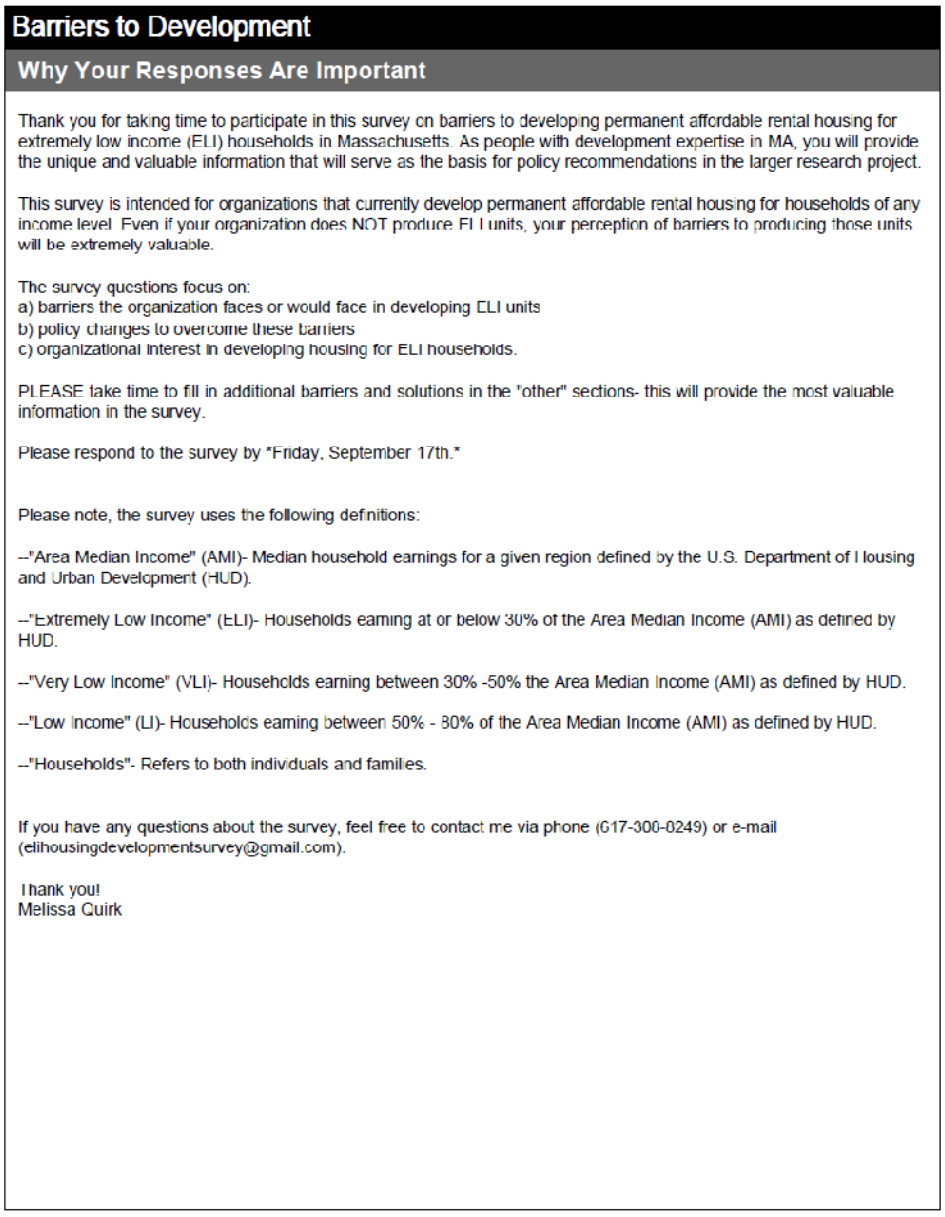
This thesis accomplished initial research on barriers to ELI development and methods to increase production in the Commonwealth of Massachusetts. Follow-up interviews with survey respondents could explicate the barriers and solutions they identified. Additional research on municipal-level policies could uncover effective strategies to increase ELI housing.

Each of the policy directions discussed in this chapter could be effective in addressing the significant shortage of ELI units in the Commonwealth through a partnership between policy makers and developers, carried out with consideration for the specific economic environment. For some policy directions, shifts in administrative practices could encourage ELI development without significant policy overhaul. Other policy directions would require long-term planning or new initiatives. The engagement of the Commonwealth of Massachusetts in focusing attention on increased ELI development would be required for all of the models.

This thesis demonstrates an extremely high interest level on the part of developers in producing ELI housing. Developers' interest, along with their significant experience in producing ELI units, presents the Commonwealth with a prime rationale for increase in ELI housing. State officials and policy makers have the opportunity to act on clear solutions to developer challenges presented in this thesis and to capitalize on developer interest in order to increase ELI housing development in Massachusetts.

Appendix

Appendix A: Survey



Barriers to Development

Why Your Responses Are Important

Thank you for taking time to participate in this survey on barriers to developing permanent affordable rental housing for extremely low income (ELI) households in Massachusetts. As people with development expertise in MA, you will provide the unique and valuable information that will serve as the basis for policy recommendations in the larger research project.

This survey is intended for organizations that currently develop permanent affordable rental housing for households of any income level. Even if your organization does NOT produce ELI units, your perception of barriers to producing those units will be extremely valuable.

The survey questions focus on:
a) barriers the organization faces or would face in developing ELI units
b) policy changes to overcome these barriers
c) organizational interest in developing housing for ELI households.

PLEASE take time to fill in additional barriers and solutions in the "other" sections- this will provide the most valuable information in the survey.

Please respond to the survey by *Friday, September 17th.*

Please note, the survey uses the following definitions:

--"Area Median Income" (AMI)- Median household earnings for a given region defined by the U.S. Department of Housing and Urban Development (HUD).

--"Extremely Low Income" (ELI)- Households earning at or below 30% of the Area Median Income (AMI) as defined by HUD.

--"Very Low Income" (VLI)- Households earning between 30% -50% the Area Median Income (AMI) as defined by HUD.

--"Low Income" (LI)- Households earning between 50% - 80% of the Area Median Income (AMI) as defined by HUD.

--"Households"- Refers to both individuals and families.

If you have any questions about the survey, feel free to contact me via phone (617-306-0249) or e-mail (elihousingdevelopmentsurvey@gmail.com).

Thank you!
Melissa Quirk

Page 1

Barriers to Development

1. Please provide the following contact information.

Names/organizations will not be reported in conjunction with responses. Providing the organization's name will allow the survey administrator to compare answers based upon organizational location, size and type.

Organization Name

Your Name

Barriers to Development

Organizational Interest in ELI Housing

2. Does your organization's mission include providing rental housing for extremely low income households?

- ◯ Yes
- ◯ No
- ◯ Organization does not have a mission

Barriers to Development

3. Is your organization interested in starting to produce or increasing production of rental units for extremely low income households?

- ◯ Very interested
- ◯ Moderately interested
- ◯ Not interested

4. If barriers to developing ELI units that your organization identifies were addressed, would your organization's level of interest in developing these units change?

- ◯ Yes, our interest would increase
- ◯ No, our interest level would remain the same

If the same level, please explain:

Page 4

Barriers to Development

Funding Barriers

5. What are the funding barriers to producing units for extremely low income (ELI) families and individuals that your organization identifies?

For each barrier, please indicate:
1) the level of significance. Use "most important" if this barrier is a deciding factor in the organization's decision to develop.

2) whether this is ALSO a barrier for creating affordable housing for very low income (VLI) or low income (LI) households. If the barrier is unique to ELI housing, please leave blank.

	Most Important (deciding factor)	Moderately Important	Slightly or Not Important	**Also barrier for VLI/LI housing**
a) Capital subsidies not deep enough to reduce operating costs to serve ELI households without operating subsidies	☐	☐	☐	☐
b) Insufficient capital resources (please specify in the "other" section below- for example, Affordable Housing Trust Fund, Low Income Housing Tax Credit, Housing Innovations Fund [other examples include pre-development resources from CEDAC, New England Fund, etc.])	☐	☐	☐	☐
c) Insufficient capital resources for special populations (please specify in "other" section below- for example, Facilities Consolidation Fund, Community Based Housing, Section 202, Section 811)	☐	☐	☐	☐
d) Insufficient Project Based resources (please specify in "other" section below- for example, Section 8, Massachusetts Rental Voucher Program)	☐	☐	☐	☐
e) Insufficient tenant based voucher resources (please specify in "other" section below- for example, Alternative Housing Voucher Program, Massachusetts Rental Voucher Program, Housing Opportunities for Persons with AIDS, McKinney-Vento)	☐	☐	☐	☐

PLEASE list other barriers- additional answers are EXTREMELY important to this survey.

Barriers to Development

Administrative Barriers

6. What are the administrative barriers to producing units for extremely low income (ELI) families and individuals that your organization identifies?

For each barrier, please indicate:
1) the level of significance. Use "most important" if this barrier is a deciding factor in the organization's decision to develop.

2) whether this is ALSO a barrier for creating affordable housing for very low income (VLI) or low income (LI) households. If the barrier is unique to ELI housing, please leave blank.

	Most Important (deciding factor)	Moderately Important	Slightly or Not Important	**Also barrier for VLI/LI housing**
a) Difficult to coordinate applications for capital and operating sources	☐	☐	☐	☐
b) Difficult to understand the full range of available development funding sources	☐	☐	☐	☐
c) Difficult to meet administrative requirements of capital and operating sources	☐	☐	☐	☐
d) Difficult to integrate supported service funding with capital and operating sources	☐	☐	☐	☐
e) Lack of staff expertise to coordinate applications and meet administrative funding requirements	☐	☐	☐	☐

PLEASE list other barriers- additional answers are EXTREMELY important to this survey

Barriers to Development

Property Management Barriers

7. What are the property management barriers in providing units for extremely low income (ELI) families and individuals that your organization identifies?

If your organization is not involved in the management of any properties after development, please click "next" to skip this question.

For each barrier, please indicate:
1) the level of significance. Use "most important" if this barrier is a deciding factor in the organization's decision to develop.

2) whether this is ALSO a barrier for creating affordable housing for very low income (VLI) or low income (LI) households. If the barrier is unique to ELI housing, please leave blank.

	Most Important (deciding factor)	Moderately Important	Slightly or Not Important	**Also barrier for VLI/LI housing**
a) High turnover rate	☐	☐	☐	☐
b) High rent delinquency rate	☐	☐	☐	☐
c) Problems managing tenant guests/additional occupants	☐	☐	☐	☐
d) Difficulties meeting rental subsidy requirements (income verification, etc.)	☐	☐	☐	☐
e) Difficulty addressing resident needs to support tenancies (please indicate in "other" section below- for example, services such as counseling, financial management, etc.)	☐	☐	☐	☐

PLEASE list other barriers- additional answers are EXTREMELY important to this survey.

Barriers to Development

Organizational, Municipal and Community Barriers

8. What are additional barriers to developing units for extremely low income (ELI) families and individuals that your organization identifies?

For each barrier, please indicate:
1) the level of significance. Use "most important" if this barrier is a deciding factor in the organization's decision to develop.

2) whether this is ALSO a barrier for creating affordable housing for very low income (VLI) or low income (LI) households. If the barrier is unique to ELI housing, please leave blank.

	Most Important (deciding factor)	Moderately Important	Slightly or Not Important	**Also barrier for VLI/LI housing**
a) Organization's mission does not target ELI households	☐	☐	☐	☐
b) Challenges navigating zoning codes, permiting/approval processes	☐	☐	☐	☐
c) Community perception that there is too much affordable housing already	☐	☐	☐	☐
d) Community perception that there is no need/demand for ELI housing	☐	☐	☐	☐
e) Community resistance to solely affordable properties (vs. mixed income)	☐	☐	☐	☐

PLEASE list other barriers- additional answers are EXTREMELY important to this survey.

Barriers to Development

Overcoming Funding Barriers

9. What type of changes would your organization need in order to develop or increase development of units affordable to extremely low income (ELI) families and individuals?

Indicate the importance of each change.

	Very Helpful (Solution to Barrier)	Moderately Helpful	Slightly or Not Helpful
a) Increased percentage of funds targeted to ELI households within existing capital resources (please indicate which programs should have increased targeting in the "other" section below)	◯	◯	◯
b) Creation of or changes to capital subsidies to reduce operating costs so flat rents can be set at 20% or 10% of AMI	◯	◯	◯
c) Linking of capital and operating subsidies with service funding sources	◯	◯	◯
d) Multi-year funding awards/commitments	◯	◯	◯
e) Changes to the use restrictions of existing subsidies (please indicate in "other" section below)	◯	◯	◯
f) Increased funding for capital or operating sources (please indicate the most important sources in the "other" section below)	◯	◯	◯

PLEASE list other solutions- additional answers are EXTREMELY important to this survey.

Barriers to Development

Overcoming Administrative Barriers

10. What type of changes would the organization need in order to develop or increase development of units affordable to extremely low income (ELI) families and individuals?

Indicate the importance of each change.

	Very Helpful (Solution to Barrier)	Moderately Helpful	Slightly or Not Helpful
a) Linked or coordinated application process for capital, operating and other funding sources to provide services that support operations (for example, resident service coordination, clinical services, etc.) (please indicate which sources in the "other" section below)	◯	◯	◯
b) Guidance on full range of capital, operating and service sources available to create ELI units	◯	◯	◯
c) Coordination of administrative requirements of capital, operating and service funding sources	◯	◯	◯
d) Staff training on applying for and management of funding requirements	◯	◯	◯
e) Access to development consultants for comprehensive assistance	◯	◯	◯

PLEASE list other solutions- additional answers are EXTREMELY important to this survey.

Barriers to Development

Overcoming Property Management Barriers

11. What type of changes would the organization need in order to provide units affordable to extremely low income (ELI) families and individuals?

If your organization is not involved in the management of any properties after development, please click "next" to skip this question.

Indicate the importance of each change.

	Very Helpful (Solution to Barrier)	Moderately Helpful	Slightly or Not Helpful
a) Funding for property manager to partner with service agency to address barriers mentioned in previous section	◯	◯	◯
b) Training for staff on navigating service needs of residents to support tenancies	◯	◯	◯
c) Reduced operating management requirements for funding sources	◯	◯	◯

PLEASE list other solutions- additional answers are EXTREMELY important to this survey.

Barriers to Development

Overcoming Organizational, Municipal and Community Barriers

12. What type of changes would the organization need in order to develop or increase development of units affordable to extremely low income (ELI) families and individuals?

Indicate the importance of each change.

	Very Helpful (Solution to Barrier)	Moderately Helpful	Slightly or Not Helpful
a) Targeting extremely low income households in your organization's mission	◯	◯	◯
b) Technical assistance navigating zoning, permitting and approval processes	◯	◯	◯
c) Data and evidence on ELI unit need to address community opposition	◯	◯	◯

PLEASE list other solutions- additional answers are EXTREMELY important to this survey.

Barriers to Development

13. Please share anything else regarding barriers to developing housing for extremely low income households or methods to overcome these barriers that would be helpful to know:

Barriers to Development

Units Created Annually

14. How many of the following does the organization produce annually?

	1-5	6-10	11-15	16-25	25+
Developments	◯	◯	◯	◯	◯

15. How many of the following does the organization produce annually?

	Less than 15 units	16-25 units	26-50 units	51-100 units	101-150 units	151-200 units	201-250 units	251-300 units	300+ units
Total units	◯	◯	◯	◯	◯	◯	◯	◯	◯
Affordable units (for LI, VLI or ELI households- earning below 80% AMI)	◯	◯	◯	◯	◯	◯	◯	◯	◯

For over 300 please indicate approximate number

Barriers to Development

16. How many rental units for extremely low income families and individuals does the organization produce annually?

- ◯ None
- ◯ Less than 5
- ◯ 6-15 units
- ◯ 16-25 units
- ◯ 26-50 units
- ◯ 51-75 units
- ◯ 75+ units

For over 75- please indicate approximate number

Barriers to Development

Current Extremely Low Income Units

17. What percentage of total ELI units provided (indicated in previous question) have the following:

	Less than 10%	10%-25%	25%-50%	50%-75%	75%-100%
Flat rents (set according to a certain of % AMI)	◯	◯	◯	◯	◯
Rents that fluctuate according to a tenant's income (tenant pays 30% of income towards rent)	◯	◯	◯	◯	◯

Barriers to Development

18. Which capital subsidies are used to develop extremely low income units? (check all that apply)

- [ ] Affordable Housing Trust Fund
- [ ] Low Income Housing Tax Credit
- [ ] Housing Innovation Fund
- [ ] Facilities Consolidation Fund
- [ ] Community Based Housing
- [ ] Housing Stabilization Fund
- [ ] Community Preservation Act
- [ ] HOME Program
- [ ] Rural Housing Program
- [ ] Neighborhood Stabilization Program
- [ ] Community Development Block Grant

Other (please specify)

Barriers to Development

19. Which of the following methods are used to provide units for extremely low income households? (check all that apply)

- [ ] Federal project based subsidies
- [ ] State project based subsidies
- [ ] Federal tenant based subsidies
- [ ] State tenant based subsidies
- [ ] Flat rents
- [ ] Units are provided without an operating subsidy

Other (please specify- for instance, internally cross subsidized by market rate units, debt reduced enough to lower operating costs and thus rent level, etc.)

Barriers to Development

20. What size are these units for extremely low income households? (check all that apply)

- [ ] Single Room Occupancy (SRO)
- [ ] Studios
- [ ] One bedrooms
- [ ] Two bedrooms
- [ ] Three bedrooms
- [ ] Four bedrooms or larger

Barriers to Development

Organizational Information

21. Follow Up

	Yes	No
Are you willing to be contacted for any follow up or clarifying questions?	◯	◯
Would you like to receive a summary of survey results?	◯	◯

Barriers to Development

Thank You

Your response is very much appreciated!

Appendix B: Policy Criteria

Policy Criteria for ELI Development
Criteria 1: Increases funds for ELI units
• Increases capital and operating funding • Eases investor concerns about ELI housing including apprehension about consistency of operating funding and assumptions that services are either too complicated to integrate into a project or absolutely needed for ELI households • Provides new incentives to developers to produce ELI units • Targets an increasing amount of existing capital and operating funds to ELI units • Increases availability of project-based vouchers specifically for ELI unit development
Criteria 2: Links service funding to housing
• Integrates services as an integrated, funded part of the housing development structure • Connects applications for and administrative requirements of capital, operating and service funding • Provides training for property managers on identifying service needs of tenants and assisting tenants in making connections to needed community resources • Lessens the perception that all ELI households are in need of services integrated into housing
Criteria 3: Increases depth of subsidy for ELI units
• Prevents the need for developers to access multiple public sources • Provides sufficient subsidy to set rents low enough for ELI to afford without a full operating subsidy
Criteria 4: Ensures funding consistency
• Provides multi-year operating subsidy funding commitments • Links capital funding with long-term commitment of operating subsidy • Provides a long-term commitment of services tied to units
Criteria 5: Reduces delays based on community opposition
• Prevents unreasonable delays of local approval process due to community bias against low income people • Provides municipal support for moving projects through approval process • Expedites local approval process • Provides data to demonstrate need to community and counter community opposition
Criteria 6: Eases challenges of small developments
• Adjusts reporting requirements so that they are proportional to development size • Provides priority access to project-based vouchers for projects where LIHTC is not feasible • Address access to LIHTC for small developments
Criteria 7: Reduces length of the predevelopment process
• Makes process less complicated and eliminates the need to hire a development consultant • Provides assistance navigating community opposition • Increases predevelopment funding • Changes current need to apply for funding for several funding repeatedly and maintain readied project components through several application rounds

Appendix C: Interview Question Areas

Script for Conversations with Housing Policy Experts

Introduction of Thesis

- Explain thesis stages- question, survey, policy research stage, recommendations for Massachusetts
- Define use of phrase "policy and practice" for this thesis- means regulatory, non-regulatory, administrative, practices, developer innovations, partnerships
- Distinguish ELI from supported housing
- Emphasize that research focuses on policies that affect both family and individual units

Questions About Policy/Practice Development

- Do you identify these seven policy/practice criteria as major challenges that developers in your state face in creating ELI units?
    - If no, why not and what are the major challenges in your state?
- What policies or practices in your state address the policy/practice criteria effectively?
- At what level is this policy/practice administered/executed?
- Who was involved in developing and implementing the policy/practice
- How long did the policy development process and the implementation process take?
- What community and political environment was required for policy/practice success?
- What challenges were faced at each stage of creation?

Questions About Effectiveness of Policy/Practice

- How many affordable units were created through this policy/practice?
- What length of time units will remain affordable?
- Has the model been adjusted over time and if so, why?

Questions About Replication of Policy/Practice

- Has this policy/practice been replicated elsewhere?
- What is your perspective on replication for Massachusetts (if any)?

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