



Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ◆ Karyn E. Polito, Lieutenant Governor ◆ Janelle L. Chan, Undersecretary

Public Housing Notice 2019-20

To: All Local Housing Authority Executive Directors

From: Amy Stitely, Associate Director, Division of Public Housing

Subject: Guidelines for DHCD Acceptance of net-new State Public Housing Units

Date: September 6, 2019

1. Overview

DHCD occasionally receives inquiries from Local Housing Authorities (LHAs) regarding the Department's policy on the acquisition or construction of net-new, state-aided public housing units. Recently, given the shortage of affordable housing in Massachusetts, there has been increased interest among advocates in potentially developing new public housing.

While DHCD of course supports the production of all kinds of affordable housing, due to statutory¹ and fiscal constraints the Department must be cautious when considering the prospect of expanding the state-funded public housing portfolio. Given that the estimated construction cost for one new public housing unit exceeds \$400,000 and that the existing state-aided portfolio faces an estimated \$1.4 billion expired component backlog², the Department's primary objective is to preserve and modernize the asset, rather than expand it.

That said, there are very limited situations where the Department will consider proposals to add units to an LHA's state-aided portfolio, and the goal of this Notice is to clarify the conditions under which we will consider such special requests. In general, DHCD will consider a request if:

- a. Construction of new public housing is funded principally by leveraged sources, outside of DHCD's allocation of capital bond funds for state-aided public housing; and
- b. The new units have zero or minimal impact on the need for operating subsidy.

Even given these guidelines, approval is at the Department's discretion and subject to funding availability.

¹ Each year the state budget line item for state public housing operating subsidy (7004-9005) states: "provided further, that new reduced rental units developed in fiscal year 2020 eligible for subsidies under this item shall not cause any annualization that results in an amount exceeding the amount appropriated in this item;..."

² Capital Planning System, expired components in state-funded developments, August 2019 total \$32,761/unit.



2. Program Types & Unit Limits

DHCD will consider proposals to add either Ch. 705 (family) or Ch. 667 (elderly/disabled units). DHCD will cap this program at a cumulative maximum of 100 units through fiscal year 2025.

3. Neutral Impact to Operating Subsidy

DHCD will only accept and fund proposals for new units if those units have no or minimal impact on the LHA's need for operating subsidy. In other words, DHCD will only fund or accept into the state-funded portfolio additional units at LHAs that do not currently draw operating subsidy from the state budget in order to support normal operations³ ("Surplus LHAs").

Surplus LHAs proposing new units must also demonstrate through a budget forecast that the new units will not cause the LHA to require additional operating subsidy for at least 5 years, given reasonable assumptions of increases to ANUEL and Rent. For this forecast, the LHA should assume ANUEL and rent increases of no more than 3% annually above fiscal year 2020 levels and set reasonable starting rent levels based on comparable, existing units at that LHA (e.g., if proposing adding c.705 units, assume the rental income from the new units will be comparable to the LHA's current average c.705 rents).

4. Capital Funding Availability

DHCD will only consider proposals for new construction where the majority of capital funds come from non-state sources. These can include local grants, CPA funds, CDBG funds, proceeds from the disposition of vacant land, low-income housing tax credits, or subsidies from mixed-income developments with a market rate component. State-funded operating reserves and formula funding are not eligible sources.

DHCD will limit capital awards for new units according to the following thresholds:

- A maximum of \$75,000 per c.667 unit or one-bedroom c.705 unit;
- A maximum of \$125,000 per two or more bedroom c.705 unit; and
- Additional funding up to \$50,000 per unit for the creation of accessible units in program groups where the LHA currently has less than 5% accessible units (in either its family or elderly/disabled portfolio)

All funding awards are subject to bond cap availability. DHCD encourages LHAs to explore alternative construction methods such as modular or panelized construction in order to limit construction costs. LHAs should assume that all M.G.L. c.149 public bidding rules would apply to new unit construction, including prevailing wage. DHCD will also consider proposals for acquisition of units, on a case-by-case basis.

Once built, new units will be incorporated into CPS and future formula funding allocations but as all components will be new, these units will not generate any meaningful increases to LHA formula funding for at least ten years.

³ Excluding special programmatic budget exemptions such as extraordinary maintenance or technology initiatives

5. LHA Management Capacity

The proposed additional units must not detract from the LHA's ability to maintain and operate its existing state-aided units. DHCD will therefore also consider LHA management capacity when evaluating new unit proposals, taking into account PMR findings related to vacant units, TAR, and maintenance operations, as well as the Facility Condition Index in CPS.

6. Prioritization of Funds

DHCD will prioritize requests to add units based on the following factors:

- a. CHAMP waitlist for that program – used as a measure of relative demand for housing.
- b. Likelihood that the units will not require operating subsidy outside the 5-year planning window.
- c. If proposing family housing (c.705), whether location of new housing is in an opportunity census tract for low-income children⁴.

7. Process for Requesting Funds

DHCD will accept proposals on a rolling basis, subject to funding availability, and will evaluate each proposal on a case-by-case basis. If interested in developing a proposal, please contact Bureau of Housing Development & Construction Director, Ben Stone, at ben.stone@mass.gov to discuss feasibility prior to formal submission.

A formal submittal must include the following:

- a) A narrative cover letter briefly explaining the sources of funds, why portfolio expansion is a priority of the LHA, and how the LHA will manage additional units within its current operating subsidy. The letter should reference the waitlist and the motivation for the type of units proposed (family or elderly/disabled). Letter should also mention any potential issues with community, including zoning, parking, and abutter concerns. Letter must be signed by the board chair and executive director (3 pages maximum);
- b) Estimated construction budget and total development costs;
- c) LHA 5-year operating budget projection, showing proposal has no/minimal impact to subsidy;
- d) Project proposed timeline, including any necessary local approvals;
- e) Site plan of where new units will be built (e.g. copy of assessor's map);
- f) Accompanying letters of intent and/or support from likely funding sources;
- g) A board vote of application approval, as evidenced by a certified extract from the minutes of the board meeting; and
- h) A letter from the head of the tenant organization(s) or representative of tenants that demonstrates evidence of compliance with tenant participation regulations ([760 CMR 11.10](#) and [760 CMR 6.09](#)). If no letter can be obtained, then the LHA director may instead submit a letter certifying that tenants were provided the opportunity to provide their input on the proposal.

⁴ As defined by the U.S. Census Bureau <https://www.opportunityatlas.org/>