Public Housing Authorities and the Challenge of Developing Affordable Housing:
The Case of the Cambridge Housing Authority

by

George Samuels

B.A. Economics and Spanish Literature
Colby College, 1996

Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the
Requirements for the Degree of

Master in City Planning

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

June 2001

© 2001 George Samuels. All rights reserved.

The author hereby grants to MIT permission to reproduce
and to distribute publicly paper and electronic
copies of this thesis document in whole or in part

Signature of Author: ____________________________
Department of Urban Studies and Planning
May 17, 2001

Certified by: ____________________________
Professor Langley Keyes
Department of Urban Studies and Planning
Thesis Supervisor

Accepted by: ____________________________
Professor Dennis Frenchman
Chair, MCP Committee
Department of Urban Studies and Planning
Public Housing Authorities and the Challenge of Developing Affordable Housing:  
The Case of the Cambridge Housing Authority

by

George Samuels

Submitted to the Department of Urban Studies and Planning  
on May 17, 2001 in Partial Fulfillment of the  
Requirements for the Degree of Master in City Planning

ABSTRACT

As housing and rent prices continue to rise in cities in the United States, it is becoming increasingly difficult for very low-income households to find decent affordable housing. Public Housing Authorities (PHAs), who are the main providers of housing opportunities to this population, are limited in their capacity to develop more housing units or provide more housing choices. With the elimination of the public housing development fund, and the government restrictions on their subsidy programs, PHAs can do little to address the housing issues.

This paper explores a two-vehicle model as a conceptual framework for high-performing PHAs to increase the supply of affordable housing in their communities. The first vehicle is the creation of a nonprofit affiliate, which allows PHAs to act more like private developers. The second vehicle is participation in the Moving to Work Demonstration Program (MTW), which deregulates the PHAs’ subsidy programs. The Cambridge Housing Authority’s (Massachusetts) successful use of the two-vehicle model is examined.

Thesis Supervisor: Langley C. Keyes  
Title: Ford Professor of City and Regional Planning
ACKNOWLEDGEMENTS

This thesis would not have been possible without the tremendous support and advice that I received from different people. My thesis advisor, Langley Keyes, provided insightful comments and guidance, for which I am grateful. Charlie Adams and Rebecca Matheny of the Cambridge Housing Authority gave excellent feedback, as they helped me get a better understanding of how Public Housing Authorities operate. Their experience and enthusiasm made the case study more exciting and real.

I would also like to thank the people I interviewed for this thesis. From the Cambridge Housing Authority, I interviewed Executive Director Daniel Wuenschel and Board Member Jim Stockard. I also talked to a number of people in Washington, DC to get a better understanding of public housing programs. People from the Department of Housing and Urban Development’s Moving to Work Office and the National Association of Housing and Redevelopment Officials were helpful.

I would also like to thank Steve Swanger, the Director of Tenant Services at the Cambridge Housing Authority. His passion for and dedication to providing more and better opportunities for public housing tenants inspired me to investigate solutions for the difficult housing situation that low-income people around the country face.

Finally, I would like to thank all the students, staff, and faculty in my department here at MIT. They have made my two-year experience here enjoyable. This thesis is the fruit of all the great conversations and debates that we have had in classes and in our public spaces about trying to help people better their lives.
Table of Contents

Introduction.................................................................................................................... 1
Chapter Summary........................................................................................................... 6

Chapter I. Public Housing Authorities and Affordable Housing Development: An
Historic Overview........................................................................................................... 9
Private Industry’s Influence over Federal Housing Legislators...................................... 9
Public Housing Authorities’ Image in the Public Eye.................................................... 12
The Elimination of the Public Housing Development Fund.......................................... 15

Chapter II. Subsidies’ and Process Constraints that Public Housing Authorities
Face in Developing Affordable Housing Today............................................................. 17
Subsidies Constraint...................................................................................................... 17
Operating Subsidy ......................................................................................................... 18
The Capital Fund ......................................................................................................... 19
The Section 8 Program ................................................................................................. 20
Process Constraint ........................................................................................................ 21
Confronting the Constraints ........................................................................................ 21

Chapter III. Public Housing Authorities and their Nonprofit Housing Affiliates in
Massachusetts................................................................................................................ 23
Why Create A Nonprofit Affiliate .............................................................................. 24
Capacity Issues ............................................................................................................ 26
Management Issues .................................................................................................... 27
Mirror Board ................................................................................................................ 27
Independent Board ..................................................................................................... 28
Overlapping Board ..................................................................................................... 28
Legal Issues ................................................................................................................ 29

Chapter IV. The Moving to Work Deregulation Demonstration Program.................... 31
Program Overview........................................................................................................ 31
Legislative History ....................................................................................................... 31
Program Description ................................................................................................... 32
Deregulation ................................................................................................................ 32
The MTW Program Baseline Evaluation ..................................................................... 34
The Challenges of the MTW Program ........................................................................ 34

Chapter V. The Case of the Cambridge Housing Authority........................................... 36
The Cambridge Affordable Housing Corporation....................................................... 36
The MTW Program and The Creation of a Development Fund.................................... 38
Acquisitions ............................................................................................................... 41
### Tables

<table>
<thead>
<tr>
<th>Table Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Housing Completions: 1938-1987</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Typical Funding Sources for the Cambridge Affordable Housing Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CAHC Condo Acquisition Deal Before The Moving to Work Deregulation Demonstration Program</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Sample Financial Statements of Condo Acquisition Before The Moving to Work Deregulation Demonstration Program: Property at 199 Prospect Street</td>
<td>39</td>
</tr>
<tr>
<td>4</td>
<td>Typical Funding Sources for the Cambridge Affordable Housing Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Condo Acquisition Deal With The Moving to Work Deregulation Demonstration Program</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Sample Financial Statements of Condo Acquisition With The Moving to Work Deregulation Demonstration Program: Property at 40 Clifton Street</td>
<td>43</td>
</tr>
<tr>
<td>6</td>
<td>Financial Statements for Cambridge Affordable Housing Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>65-unit Apartment Deal</td>
<td>44</td>
</tr>
</tbody>
</table>

### Figures

<table>
<thead>
<tr>
<th>Figure Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Housing Development Fund: 1962-2000</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>Matrix of Expanded Programs Based on the Current Moving to Work Deregulation Demonstration Program</td>
<td>48</td>
</tr>
</tbody>
</table>
Introduction

The need for affordable housing has intensified in the United States. In its annual report, The State of the Nation’s Housing, the Joint Center for Housing Studies at Harvard University paints a stark picture of the current low-income housing situation. Nationwide, nearly 23 million households are living in moderately cost-, severely cost-, and severely inadequate-burdened homes and apartments.2

Adding to these sobering findings, a report issued by the Department of Housing and Urban Development (HUD) finds that nearly 5.4 million low-income families need housing assistance due to a shrinking number of affordable rental units—a rise of 12 percent since the economic expansion began in 1991. This figure only represents the families in “worse case” scenarios, so many more families are in need. As the report notes (HUD March 2000, 1), “The housing stock affordable to the lowest income Americans continues to shrink, with rental units affordable to families with incomes below 30% of area median income [AMI] down by 5 percent between 1991 and 1997, a decline of over 370,000 units.”

Prospects for the future appear grim. Currently there are over some 10 million unsubsidized low-income households (about 80% urban renters). The data suggest that the number will increase. For example, as of 1999, the Joint Center study reports the threat of and actual losses in three affordable housing programs: HUD-subsidized private programs (like Section 8), public housing, and tax credit programs. For HUD-subsidized private programs, roughly 90,000 units had been lost from the affordable stock because of mortgage prepayments or opt outs. For public housing, over 27,600 units had been torn down, and despite HUD’s replacement goal of 45 percent, only 7,273 units have been built or rehabbed thus far. For the tax-credit programs, 23,000 units built

1The word “affordable” in this document refers to housing that meets the Department of Housing and Urban Development (HUD) requirement for affordability for households at 80% and below AMI. Also this kind of housing costs a tenant no more than 30% of his/her income. “Affordable” also refers to government-subsidized housing. I will use the term “affordable” housing and low-income housing interchangeably.

2Joint Center for Housing Studies’ tabulations of the 1997 American Housing Survey
under the program are set to expire in 2002, and the number of units receiving tax credit allocations fell from a high of 117,099 in 1994 to just 67,822 in 1998 (State of the Nation’s Housing, p. 25-26).

As market rents continue to rise in many of our cities and metropolitan areas, more and more low-income people are paying a larger percentage of their income on rent or have to leave their dwellings because they are no longer able to afford rent. (HUD 2000).

With the increasing gap between the number of available affordable units and the number of low-income households in need of housing, much emphasis is focused on development. There are entities—community development corporations (CDCs), community housing development organizations (CHDOs), for-profit tax credit developers, municipalities, and Public Housing Authorities—involved in addressing this issue. Yet in the face of government cutbacks, they fall far short of closing this gap.

The HUD budget—which is the primary funding source for many of these entities through Community Development Block Grants (CDBG), Home Investment Partnership Funds (called HOME), and other housing programs—has plummeted over the last twenty years. From 1978 to 1997, the HUD budget has decreased some 83%, from $72 billion to $12 billion (Drier 2000). These budget cutbacks have made it more difficult to produce affordable housing.

Over time, the government has also increasingly encouraged private development of affordable housing—through elderly housing and below market interest rate programs to induce private development, set-asides in the HOME and CDBG programs for nonprofit developers and municipalities, and (more recently) tax credit allocations for for-profit developers. Thus, private groups have been able to continue in the development arena.

\[\text{(Development throughout this document means any activity—acquisition, rehabilitation, and new construction—that results in an increase in the number of units affordable to households at or below 80% of AMI.)}\]

\[\text{(These figure are calculated using constant 1997 dollars.)}\]
Public Housing Authorities (PHAs), on the other hand, have been squeezed out of the development arena as a result of the HUD budget cutbacks. This is unfortunate as PHAs have tremendous experience in providing affordable housing, and could play a larger role in helping to alleviate the housing problem. The current situation is practically a 180-degree turn around from the historical role that PHAs have played in the development of low-income housing. There was a time, when nearly all low-income housing was developed by PHAs. Yet over time their capacity to do so has been greatly limited. How did this happen?

First, the public housing development fund, which enabled PHAs to build more than half of the existing 1.3 million low-income public housing units since their inception in 1937, was eliminated in 1996 (NARHO 2000). The government used the fund to pay the principal and interest on bonds that were floated to build public housing.

Second, the private building industry’s influence over federal housing policy legislators resulted in less government emphasis on PHA development activity. The private building industry campaign was effective in convincing “conservative members [of Congress to label] public housing a socialist program on the grounds that it would put the government in competition with private property (Bratt 1989, p.56).

Third, over time many PHAs had less incentive to develop more affordable housing because of increased costs in operating their existing public housing developments. Federal rent regulations in 1949 and then in 1969\(^5\), and new admission rules that gave preferences to the poorest of the poor, limited the amount tenants paid to live in public housing (Bratt 1989). As a result, PHAs collected less revenue to pay for operating expenses in public housing. High inflation in the 1960s and 1970s increased operating costs, which made it more difficult for PHAs to pay for basic maintenance and repair services. Starting in the 1960s, the government appropriated funds—operating and modernization subsidies—to cover the increased costs. Yet for many larger PHAs, these subsidies were insufficient to cover public housing developments that had already fallen into serious disrepair (Struyk 1980).

---

\(^5\) 1949 rent limits set public housing rents at 20% lower than the prevailing private market rent. Brooke rents set public housing rents at 25% of tenant income (Keith 1973).
Fourth, the intense media coverage of troubled public housing developments gave some PHAs a negative image in the public eye, and also helped to shift government emphasis away from PHA to private market development of affordable units. Many public housing developments became havens for crime and drugs (Wilson 1987), partly due to inadequate government subsidies for tenant services—such as security and maintenance. While many PHAs did a good job of managing and operating their public housing developments, the perception of the troubled sites made it difficult for PHAs to justify their competence in providing decent affordable housing.

Finally, the government’s stringent rules on property acquisition and other financing difficulties hindered PHAs’ ability to provide more affordable units in their communities. This has become a major issue for PHAs seeking to procure property in tight real estate markets.

With limited capacity to produce housing, some PHAs are having increasing difficulty in housing their target population—the poorest of the poor or those households at or below 30% of Area Median Income (AMI). According to the National Low Income Housing Coalition (2000 Advocates’ Guide), the average wait to get into public housing is 11 months. At larger PHAs, the average wait is 33 months, with longer waits in New York City (8 years), Oakland (6 years), and Washington, DC (5 years).

Some argue that private for-profit and nonprofit developers are not reaching many households at or below 30% of AMI. Hornburg and Lang (1997, p. 584) note that “[CDCs] target their efforts to those just below middle income, while public housing authorities provide housing to the poorest of the poor.” With 370,000 fewer rental units affordable to this population, how will PHAs help in addressing this issue?

Unfortunately many PHAs are not able to do much about the current housing situation, and have mainly been involved in maintaining and revitalizing their existing public housing stock, and administering Section 8 vouchers, which tenants use to secure housing on the private market. Some PHAs have used the HOPE VI program, which provides competitive grants to revitalize severely distressed public housing developments, as a vehicle for development. Yet HOPE VI is
mainly a redevelopment program, and almost always results in a loss of affordable units because of its density reduction and income-mixing goals (NLIHC 2000).

In the Section 8 arena, the trend in recent years has been in favor of tenant-based vouchers. Currently, the government only funds tenant-based assistance under the Section 8 program, although 20% of these vouchers can be project-based—a process of tying the subsidy to a unit, as opposed to giving it to the tenant to secure housing on the private market. Tenant-based assistance proponents claim that (1) over time it is less expensive to give a tenant a voucher to secure housing on the private market than to build housing (Shroder and Reiger 2000); (2) vouchers give low-income households more housing choices than conventional public housing (Turner 1998); and (3) vouchers help to reduce the concentration of poor people in poverty stricken inner-city areas (Turner 1998).

Yet in local markets where housing costs have increased drastically, there are lower rates of tenant voucher utilization, as landlords often choose to make more money renting their units on the private market. Many PHAs are under pressure from HUD to increase their voucher utilization rates, but are having increasing difficulty in doing so. As a result, PHAs have argued for changes in the Section 8 program—(1) an increase in the Section 8 rent limit for Fair Market Rents (FMR), which currently allows for contract rents up to 110% of FMR; (2) more vouchers for distribution to tenants; and (3) more flexibility to use project-based assistance, which can attract private funding through mortgages and preserve affordable units in their communities (CLPHA 2000).

So what can PHAs do with their limited resources to play a greater role in the uphill battle to provide decent affordable housing to America’s low-income households? This paper argues that PHAs may be able to do quite a bit. In particular, it attempts to answer the question: How can PHAs that have the organizational capacity to develop affordable housing achieve this goal? In answering this question, this paper examines the Cambridge Housing Authority’s (CHA)

---

6HUD calculates the Fair Market Rent. It is an estimate of how much apartments in a metropolitan area usually cost. HUD sets the FMR at 40% of the median rents in the area. HUD is willing to negotiate rent limits with PHAs. Some PHAs, in tight housing areas, may set the rent limits at 120% of FMR. See National Low Income Housing Coalition 2000 Advocate’s Guide.
successful effort to increase the supply of affordable units in Cambridge, Massachusetts. The CHA’s success is due to:

- Its formation of a nonprofit affiliate, called the Cambridge Affordable Housing Corporation, which enables the CHA to act more like a private housing developer in addressing local housing needs. The nonprofit provides the CHA with (1) the flexibility to acquire property on the private market, and (2) the ability to attract more funding through its nonprofit 501(c)(3) status; and

- Its participation in the Moving to Work Deregulation Demonstration (MTW) authorized by the federal government in 1996. This program is an experiment for up to 32 PHAs to promote more housing choice and self-sufficiency among public housing and Section 8 households, by deregulating many of the PHAs’ subsidy and programmatic regulations. The deregulation enables the CHA to devise it own plan for addressing local housing needs, one of which is to increase the supply of affordable units through development.

As a result of these two phenomena, over the last few years the CHA has been involved in adding over 100 units to the supply of affordable housing in Cambridge—a daunting task in a market where housing prices have increased over 43% in the last five years.

This paper outlines the CHA experience as a high-performing PHA, and its ability to use its nonprofit affiliate and the Moving to Work Deregulation Demonstration (MTW) program to provide more housing opportunities for low-income households. The nonprofit affiliate and the MTW program are the two vehicles that the CHA uses to achieve this goal—they should not be viewed in isolation of each other. The following analysis explores these two vehicles in a conceptual framework that can serve as a model for high-performing PHAs. It is a workable model for PHAs that meet the standards of high-performance—they have the capacity to create a nonprofit affiliate and to pursue admission into the MTW Program. The model can inform PHAs on how to operate in a tight housing market environment to produce affordable housing. To this end, the remainder of the paper is divided into six chapters.

The first chapter presents an historical overview of some of the major legislative policies that have led to the demise of PHAs as affordable housing developers. The purpose of this chapter is

---

\(^7\) HUD rates PHAs high-performing for efficiently and effectively managing their public housing stock and administering their Section 8 vouchers. The two measurement systems are called the Public Housing Assessment System (PHAS) and the Section 8 Management Assessment System (SEMAP).
to give the reader a sense of how the government’s emphasis on PHA development has changed over the years, from a system where practically all low-income housing was developed by PHAs to one where there is no more funding for PHA development. The chapter highlights two reasons for this turnaround in government emphasis: (1) the private building industry’s influence over federal housing policy legislators, and (2) the negative image of larger PHAs due to the intense media coverage of the worst PHA developments that were plagued by crime, drugs, and concentrated poverty.

Chapter two discusses the current constraints that PHAs face in developing affordable housing, in tight housing markets without the public housing development fund. PHAs face two main constraints: (1) a subsidies’ constraint, and (2) a process constraint. The subsidies constraint is the insufficient and limited subsidy streams that PHAs receive from HUD, which make it difficult for them to attract private financing. The three subsidy streams are the operating subsidy, the Capital Fund, and the Section 8 program payments. The process constraint has to do with HUD rules on property acquisition, which makes it difficult for PHAs to acquire property in tight real estate markets.

The third chapter outlines how some PHAs, despite the constraints, have managed to develop housing by attracting non-governmental funding and acquiring property, through the formation of nonprofit housing affiliates. It examines why PHAs should consider forming these nonprofit affiliates. It also provides information on some of the capacity, management, and legal issues that PHAs should consider when creating a nonprofit affiliate. The chapter discusses the nonprofit affiliate as one part of a two-vehicle model for affordable housing development. The other part is the Moving to Work Deregulation Demonstration Program.

The fourth chapter presents an overview of the Moving to Work Demonstration Program (MTW). It addresses how the MTW program gives high-performing PHAs more flexibility in developing affordable housing by deregulating their subsidy streams. Challenges that PHAs face in the MTW program are also discussed.
Chapter five provides detailed information on the CHA’s development activities, as a result of the combined nonprofit and the MTW program vehicles. Finally, chapter six concludes with policy recommendations at the federal, state and local level, that could enhance the ability of other high-performing PHAs to produce affordable housing.
Chapter I. Public Housing Authorities and Affordable Housing Development: A Historical Overview

There was a time when Public Housing Authorities (PHAs) were the main developers of affordable low-income housing. They “purchased sites and directly supervised planning, construction, and management of nearly all public housing” (Aaron 1972). Over time, federal housing policies have relegated PHAs to a substantially smaller and more restricted role in affordable housing development. The government continually decreased, and then in 1996 eventually eliminated (NARHO 2001), the main vehicle for PHA development: the public housing development fund. As a result, many PHAs in cities where housing prices have skyrocketed over the last ten years have not been able to play a significant role in increasing and preserving the housing stock that is affordable to low-income households. What was different about the PHAs’ affordable housing development in their early years, from 1937 to the early 1960s? How did federal housing policies lead to the demise of PHAs in the development arena over time? What happened to the public housing development fund?

This chapter attempts to answer these questions. The first section explores the significant role that the private building industry played in shaping some of the major federal housing policies. The second section highlights the tarnished image that PHAs experienced as a result of the intense media focus on the troubles of public housing developments. Both of these phenomena have resulted in less government support and resources for PHA development. The last section provides information on the eventual elimination of the public housing development fund.

The Private Building Industry’s Influence Over Federal Housing Policy
One factor that led to less government emphasis on PHA development activity was the private building industry’s influence over some of the major low-income housing policies. In particular, the it had the effect of both limiting (1) the scope and (2) the scale of PHA development activity. Before the first major piece of housing legislation was passed in 1937, the real estate lobby in Congress promoted limiting the type of housing that PHAs developed to distinguish low-income housing from private market housing (scope). In later years, the real estate lobby focused on
limiting the development capacity of PHAs by promoting policies to induce private developers to build low-income housing (scale).

One of the main groups in the real estate lobby was the National Association of Real Estate Boards (NAREB). Its leaders,

“...abhorred public housing on ideological grounds. They believed that housing projects competed with private business but did not pay taxes, were an opening wedge in an eventual takeover of the private housing industry by the government.... [Thus,] they campaigned intensely against public housing” (Hoffman 2000, p. 304).

The outright opposition to the public housing program greatly limited the scope of PHA development. Although PHAs were given the authority to build low-rent public housing under the Act of 1937, there were many rules on how and where they could build.

- First, public housing was to be clearly distinguishable from private market housing. Housing was built with “reinforced concrete frame construction, concrete piers, foundations, concrete floor and roof slabs, concrete columns, in filled with tile block, exterior and party walls with plaster on metal lath interior partitions.” (Texas Low Income Housing Information Service, 1998) The construction was similar to office buildings of the time, and as expensive.

- Second, local communities could decide whether they wanted to participate in the public housing program. Many suburban communities refused to set up local housing authorities. As a result, many public housing projects were located in cities on cheap, and in many cases unwanted, land in isolated areas. This marked the geographic distinction between public and market rate housing (Fisher 1959).

- Third, although the government provided funding for local housing authorities to build public housing, it was to be done in the name of slum clearance—through a process called “equivalent elimination.” For each public housing unit created, a sub-standard slum unit was to be destroyed. This rule assured the real estate and business interests that the government aimed to increase the quality of housing and not the quantity. Local housing authorities were given condemnation rights, but only in low-income communities where there was substandard housing. (Fisher 1959).

- Fourth, rent levels in public housing were to be set lower than those in market housing, but not too low. Public housing was designated for the “submerged middle class,” “temporary poor” or those who could not afford market rate housing. Public housing was considered transitional housing—for Americans who were experiencing hard times during the
Depression and needed a boost to get back on their feet. The public housing program was not conceived as a program for poor people who could not pay any rent (Freedman 1969).

Despite these limiting features, PHAs were still able to develop low-income housing. In 1937, PHAs were authorized to fund 50,000 units a year. But by 1942 only 137,405 units were built (See Table 1). In that same year, the public housing program was halted when Congress ended additional development funding appropriations, as World War II efforts took precedence over the housing needs of low-income American families (Hoffman 2000).

After World War II, the program resumed with vigor, as in 1949, the government authorized the construction of 810,000 units over six years. But due to delays at the local level—like construction planning, setting up housing authorities, and obtaining permits and other approvals—this goal was not realized in the specified time frame (Fisher 1959). As the public housing completions indicate, from 1949 to 1956, less than 200,000 units were built (Table 1).

By the late 50s, public housing completions fell dramatically—averaging only 15,000 per year from 1956-59, down from 45,000 units per year from 1952-1955. This was partly due to some new government programs that encouraged private development of affordable housing, and that limited the scale of public housing development.

In 1959, the government introduced the Section 202 program for private nonprofit developers to build elderly housing. In 1961, the Section 221-d-3 program was introduced to offer below-market-interest-rates (BMIR) to private for-profit developers. Then in 1968, came the Section 236 program. It offered private for-profit developers favorable mortgage insurance plans to build low-income housing (Report of the House Committee on Banking and Currency, 1968). As a result of these government policies, private developers became more involved in low-income housing development.
Table 1. Public Housing Completions 1938-1987

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
<th>Year</th>
<th>Units</th>
<th>Year</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td>4,960</td>
<td>1956</td>
<td>11,993</td>
<td>1973</td>
<td>52,791</td>
</tr>
<tr>
<td>1940</td>
<td>34,308</td>
<td>1957</td>
<td>10,513</td>
<td>1974</td>
<td>43,928</td>
</tr>
<tr>
<td>1941</td>
<td>61,965</td>
<td>1958</td>
<td>15,472</td>
<td>1975</td>
<td>24,514</td>
</tr>
<tr>
<td>1942</td>
<td>36,172</td>
<td>1959</td>
<td>21,939</td>
<td>1976</td>
<td>6,862</td>
</tr>
<tr>
<td>1943</td>
<td>24,296</td>
<td>1960</td>
<td>16,401</td>
<td>1977</td>
<td>6,229</td>
</tr>
<tr>
<td>1944</td>
<td>3,269</td>
<td>1961</td>
<td>20,965</td>
<td>1978</td>
<td>10,295</td>
</tr>
<tr>
<td>1945</td>
<td>3,080</td>
<td>1962</td>
<td>28,682</td>
<td>1979</td>
<td>44,019</td>
</tr>
<tr>
<td>1946</td>
<td>1,925</td>
<td>1963</td>
<td>27,327</td>
<td>1980</td>
<td>15,109</td>
</tr>
<tr>
<td>1947</td>
<td>466</td>
<td>1964</td>
<td>24,488</td>
<td>1981</td>
<td>33,631</td>
</tr>
<tr>
<td>1948</td>
<td>1,348</td>
<td>1965</td>
<td>30,769</td>
<td>1982</td>
<td>28,529</td>
</tr>
<tr>
<td>1949</td>
<td>547</td>
<td>1966</td>
<td>31,483</td>
<td>1983</td>
<td>27,876</td>
</tr>
<tr>
<td>1950</td>
<td>1,255</td>
<td>1967</td>
<td>38,756</td>
<td>1984</td>
<td>24,092</td>
</tr>
<tr>
<td>1951</td>
<td>10,246</td>
<td>1968</td>
<td>72,638</td>
<td>1985</td>
<td>19,267</td>
</tr>
<tr>
<td>1952</td>
<td>58,258</td>
<td>1969</td>
<td>78,003</td>
<td>1986</td>
<td>15,464</td>
</tr>
<tr>
<td>1953</td>
<td>58,214</td>
<td>1970</td>
<td>73,723</td>
<td>1987</td>
<td>10,415</td>
</tr>
<tr>
<td>1954</td>
<td>44,293</td>
<td>1971</td>
<td>91,539</td>
<td>1988</td>
<td>6,229</td>
</tr>
<tr>
<td>1955</td>
<td>20,899</td>
<td>1972</td>
<td>58,590</td>
<td>1989</td>
<td>10,415</td>
</tr>
</tbody>
</table>


The PHAs’ Image In The Public Eye
A second factor that led to less government emphasis on PHA development activity was the negative media attention that was focused on some of the larger public housing developments in the big cities. In the 1960s, the negative press portrayed large PHAs as incompetent entities, and as more of a problem for low-income households than a solution to their housing needs. This clearly was not the case. As Raymond Struyk noted (1980, p.8) in his study of PHAs in large cities, “18 percent of large [PHAs’] projects were perceived as troubled, compared with 4 percent of projects of other PHAs.” Around the country, there were many PHAs doing a good job at managing their sites. Still, there were problems.

There are many reasons why some large PHAs’ projects became havens for drugs, crime and poverty—such as the design of the projects, where they were built, and their neighborhood characteristics. These issues have been addressed extensively elsewhere; here, I am concerned with the negative perception of PHAs—amplified by the increasing costs of operating and

---

8 For example, see Struyk (1980) for an examination of 29 of the largest public housing authorities during the late seventies. Also, see Wilson (1987) for an extensive look at the Chicago’s public housing developments. See Bratt (1989) as well for overview of public housing image vs. reality.
managing public housing—that further resulted in less government resources for PHA development, and more for private market sponsorship of low-income housing.

Some of the most notable PHA projects in the big cities took center stage starting in the 1960s. Many of them were on display to show the perceived ineffectiveness of PHAs in housing America’s poor. As Martin Mayer (1978, p.184) noted, there was the

“fifty-acre superblock of Pruitt-Igoe, now demolished, Boston’s Columbia Point, mostly now boarded up; Philadelphia’s vacated Rosen Apartments; Newark’s desolate Columbia House; Chicago’s menacing Cabrini-Green; [and] the Fort Green House in New York that so horrified [the writer] Harrison Salisbury.”

These images helped to undermine the PHAs’ role in the development and the management of low-income housing. They were further exacerbated by soaring operating expenses and modernization needs that many projects experienced in 1960s as a result of the increasing gap between what it costs to run public housing and what tenants actually paid. The increased costs were largely due to Brooke rents⁹ that capped tenant maximum rent to 25% of income, occupancy rules that required PHAs to house the poorest of the poor, and inflation.

The federal government responded by authorizing subsidies to help cover the increased costs. But by the time these government subsidies were distributed, many PHAs had built up immense costs in operating their properties, as well as substantial modernization needs for their public housing stock. Further, the subsidies were distributed through restrictive formulas that required each subsidy to be used only for the designated program, and for strictly regulated purposed.

In 1968, the government appropriated subsidies to pay for public housing modernization needs. However, PHAs had to compete for these capital improvement funds. Only PHAs with 500 or more units of public housing qualified to apply for this grant. If PHAs did not have competent staff that knew how to write proposals to HUD, they could go for years without repairing their housing stock (Struyk 1980).

---

⁹ Senator Edward Brooke of Massachusetts sponsored legislation known as the Brooke Amendments. This set public housing rents at 25% of tenant income. Now, rents are set at 30% of tenant income (Struyk 1980).
In the 70s, the government decided to control operating subsidy increases by standardizing them under a system known as the Performance Funding System (PFS). The PFS was based on operating costs data collected from a sample of well-managed PHAs around the country. The PFS did not fully take into account individual properties or individual PHA’s costs, thus many PHAs did not receive their fair share of the operating subsidy. As Struyk noted (1980, p.12), “for the major [PHAs,] operating subsidies pay for half of current expenses.”

Thus the negative perception of PHAs was intensified by the increasing difficulty of operating and managing their projects. This situation further encouraged the government to seek private market assistance in housing low-income households.

In 1974, the government turned to the private building industry with the Section 8 program. This program offered developers contracts to (1) build or rehabilitate housing for low-income households (project-based component where the subsidy is tied to the unit) and to (2) provide tenants with private housing (tenant-based component where a tenant can take the subsidy to rent housing on the private market). Private developers were provided a Housing Assistance Payment (HAP), which was the difference between the FMR set by HUD and 30% of tenant income.

In 1986, the government involved the private sector once again, but this time through the tax code system, with the Low-Income Housing Tax Credit (LIHTC). In this program, private developers attracted equity investors, like corporations, that would provide equity in exchange for dollar-for-dollar tax credits to reduce their tax liability. The LIHTC became the new vehicle for affordable housing development, as it is the most widely used today (NLIHC 2000).

As a result of these policies, PHAs received less government resources for affordable housing development.
The Public Housing Development Fund
With more government emphasis on the private building industry, the development of public housing by PHAs’ decreased dramatically in the 80s. From 1980-87, PHAs only oversaw on average the development of close to 18,000 public housing units per year, down from over 64,000 units per year from 1970-1979. Government appropriations to build public housing through the public housing development fund also started to fall.

**Budget Authority Data was not available for years before 1976. Also in 1977 the government changed its fiscal year start date to October 1 from July 1.
***In years where BA equals zero, no appropriation were made.
****Negative numbers mean there were receipts in those years and no appropriations.

The government appropriated some $31 billion through budget authority (BA) to the public housing development fund in 1978. The BA is the financial commitments that the government makes to build public housing. Since then, appropriations to the development fund have dropped steadily. In the late 70s, outlays—the actual payment of the government’s financial commitments—did not keep pace with the BA, but this can be largely attributed to normal lags in construction at the local level by PHAs as it takes a number of years to build units (See Figure 1). The main issue here is that over time, the government took back the monies that it
appropriated through budget authority. Over the years, Congress appropriated less budget authority for the development fund—the main financial resource for PHA development activity.

Today, many PHAs are left with no mechanism by which affordable housing can be developed. Further, the terrain for affordable housing development has changed substantially over the years. First, development costs have risen, which have resulted in higher housing prices (Census 2000). Second, many of the major cities are experiencing tremendous economic revival. Thus, the housing in these areas that were once denounced by private developers and public officials alike, are now coveted, and have fallen victim to private speculation—which resulted in higher rents for apartments in those areas (Grogan and Proscio 2000).

To develop housing in many of these areas, PHAs must act more like private market developers. Part of the problem is that they no longer have a development fund that allows them to fill the affordable housing funding gap. They also no longer have the same capabilities of exercising condemnation rights. Yet other guidelines—HUD rules for acquiring property and subsidy use restrictions—still exist. Chapter II examines some of the current constraints that PHAs face in developing affordable housing today.

---

10 Unfortunately, there was no data on appropriations before 1976, but the outlays data show that only $9.6 billion spent—which suggest that there may have been more unspent development fund monies.

11 Condemnation rights vary from state to state.
Chapter II. Subsidies’ and Process Constraints that Public Housing Authorities Face in Developing Affordable Housing

“Second-quarter housing prices were up 8.1 percent in the Sacramento area from a year ago, according to First American Real Estate Solutions, a nationwide real estate information company. That beat the national rise of 5.3 percent in the second quarter. The highest rises were in Los Angeles, 14.6 percent; Boston, 10 percent; and San Francisco, 11.6 percent” (Sacramento Business Journal, 1999)

Housing prices have risen substantially in many of our major cities. At the same time, PHAs in these areas have experienced record increases in their waiting list for conventional public housing and Section 8 housing. In Boston, the waiting list for these programs has reached 15,000 households, and many of the prospective households are at or below 30% of AMI (Boston Housing Authority 2001). PHAs in these areas are in desperate need of housing solutions for this population.

There are two constraints that PHAs in tight housing markets face in developing affordable housing—(1) a subsidies’ constraint, and (2) a process constraint. The subsidies’ constraint has to do with the PHAs’ insufficient subsidy streams that make it difficult for them to secure private financing. The process constraint is the difficulty that PHAs have in acquiring property because they have to go through a lengthy HUD approval process.

This chapter explores both constraints. The first section examines the lack of flexibility of each of the government subsidies that PHAs receive—the operating subsidy, the Capital Fund, and Section 8 Program payments. The second section discusses the complexity of the HUD rules for acquiring properties. The last section discusses how high-functioning PHAs can confront these constraints by creating and nonprofit affiliate and by participating in the MTW program.

The Subsidies’ Constraint
Under the 1998 Quality Housing and Work Responsibility Act (QHWRA), PHAs were authorized to use their subsidy streams (1) as reserves to ensure housing affordability of tenants; (2) as an investment to enhance credit-worthiness; and (3) as collateral for other forms of public or private borrowing (NARHO 2000).
Yet the three subsidies that PHAs receive are too insufficient to use for these purposes. The formulae that the government uses to distribute each subsidy do not fully gauge the needs of PHAs in cities where housing prices have risen dramatically. Further, each subsidy stream must be used for its regulated purpose. The operating subsidy is used to pay for operating expenses in public housing. The Capital Fund is used to pay for modernization needs in public housing, and Section 8 payments are used for low-income households to secure housing on the private market.

An insufficient operating subsidy makes it difficult for PHAs to operate efficiently and effectively, as there are fewer resources for tenants, and fewer possibilities to improve services or expand them, if needed. An insufficient Capital Fund leaves PHAs with little incentive to develop because of the large financial burden of maintaining their current housing stock. Insufficient Section 8 payments make it difficult for voucher recipients to secure housing in high rent areas (CLPHA 2000).

Operating Subsidy
Operating subsidies are based on a formula known as Performance Funding System (PFS), which was introduced in 1975. The PFS establishes a per-unit-month (PUM) expense for the units in PHAs’ housing stock. This figure is called the Allowable Expense Level (AEL)\(^{12}\). There is also a utility subsidy that is added to the AEL called the Allowable Utility Expense Level (AUEL)\(^{13}\). PHAs receive a operating subsidy that equal a utility subsidy plus another subsidy that is the difference between the AUEL and their average tenant rental income levels. Holding the AUEL constant, if tenant rental income increases, the subsidy level decreases. Conversely, if tenant rental income decreases, the subsidy level increases (Cambridge Housing Authority 2001).

Although the formula is adjusted annually for inflation, the mechanism has some flaws. As mentioned before the formula does not take into account the changing circumstances of PHAs in local markets—like unexpected price increases for services to operate public housing. For example, recently the Boston Housing Authority (BHA) experienced serious costs overruns (over $500,000) as a result of increased costs for contractor materials and maintenance, and

\(^{12}\) This is a simplified version of the AEL calculation. Please see Struyk 1980 for a more detailed analysis.

\(^{13}\) The AUEL figure is a constant number in this example to simplify the analysis. However, it changes per PHA depending on their average utility consumption and the utility rate paid by the PHA.
unexpected changes in worker's compensation and retirement. The government did not fund these increased costs. The BHA is then left to figure out some other way to pay for these increases, which may result in fewer staff and services to tenants. PHAs in this situation have to make due with their subsidy allocation, even if it results in poorer services.

In a tight housing market, PHAs have little room to develop units under these circumstances. When the operating subsidy does not cover basic services, there can be cutbacks instead of more housing opportunities for current and potential tenants.

The Capital Fund
The Capital Fund distributes modernization grants through a formula using several factors, including the age of a PHA’s properties, density, and their size. This information is entered into a database formula, which calculates a number for a PHA’s modernization backlog and accrual needs. All the eligible PHAs’ capital needs are then added up for a total sum, which is then used to figure out what a PHA’s capital needs percentage is in comparison to all PHAs that are eligible for the Capital Fund (recently changed to PHAs with 250 or more units of public housing). HUD decides what percentage of the Capital Fund allocation to give to each PHA based on its capital needs percentage (Cambridge Housing Authority 2001).

For example, if a PHA has .35% of the total capital needs for all eligible PHAs, then it would receive .35% of the Capital Fund allocation. If the Capital Fund allocation were $1 billion, then the PHA would receive $3.5 million.

Although the Capital Fund is a more predictable source of subsidy for many PHAs, it falls short of meeting many of their needs. The formula system does not take into account a PHA’s actual capital needs; it only measures a PHA’s capital needs as a percentage of all eligible PHAs’

---

14 Generally, this is how the formula works. However, HUD also takes out set-asides, for things like severely distressed properties. This can be a substantial amount. Also The Capital Fund is a budget authority subsidy, which means that PHAs are granted funds under the program, but these funds have to be drawn down. In other words, PHAs do not receive funding for capital improvements until after they have spent the money. As a result, a PHA could receive an funding obligation from HUD in fiscal year 1998, but because of the time delays in organizing, planning, designing, the bidding for a capital improvement project it may not actually draw down the funding until fiscal year 2000. The PHA have two years to use these funds, at which point they must request an extension or the government takes them back. Funding usually fluctuates from year to year, but a PHA can make a guesstimate based on a prior year’s allocation.
capital needs. Recent studies have found that the backlog of modernization needs for the nation's public housing stock is in excess of $23 billion (Géno and Whittaker, 2000). The government claims that some of these funds can be used “flexibly for capital improvements including the development of additional public housing units, modernization, and technical assistance,” (NARHO 2000) but few PHAs have that option considering the huge financial burden of modernizing and maintaining their current housing stock. Subtracting from their already limited pool of resources, HUD’s FY 2002 budget shows no promising signs for the Capital Fund, as it proposes to cut the program by $700 million (CLPHA 2001).

**The Section 8 Program**

Each year, Congress appropriates, through budget authority, a certain number of tenant-based vouchers under the Section 8 program for PHAs and other administering agencies. Congress also provides additional funds for administrative fees that administering agencies use to keep records, conduct re-certifications (if a tenant’s income increases, they must pay more in rent), and assist families in finding suitable housing. Administrative fees are a fixed dollar amount per voucher. Based on the FMR, a PHA will receive a subsidy to pay landlords, which is the difference between the contract rent and 30% of a tenant’s gross income. To participate in the program, a tenant’s annual income can be no greater than 50% of AMI. If HUD budgets $1.6 million for payment to landlords, then a PHA can pay out that amount, and expect reimbursement from HUD if it pays out more (CHA 2001).

Under the program, PHAs can choose to use up to 20% of their tenant-based Section 8 voucher as project-based assistance, a practice known as “project-basing” the vouchers. Also, PHAs can only use project-based assistance in 25% of the units in a building. Although the Section 8 program provides some flexibility, PHAs in high rent areas have argued for more freedom in deciding whether to project-base their vouchers.

First, whether project- or tenant-based assistance, many PHAs find it difficult to preserve affordable housing in communities where rent prices have risen above 120% of FMR. Many PHAs are restricted to pay rents at 110% of FMR, although some may receive special permission
to pay rents at 120% of FMR. As a result, many current and potential voucher holders in search of housing are priced out of the housing market.

Second, PHAs could better serve their constituents if they had a source of permanent affordable housing in their communities, something that project-based assistance provides. In the face of rising rents, many PHAs want to tie down units in a community to give low-income people an option to stay in their neighborhoods.

Third, PHAs can also play a substantial role in helping other nonprofit housing providers to secure long-term affordable housing in communities, when they project-base their tenant-based vouchers. Many nonprofits need additional subsidies to ensure tenant affordability, and to build strong portfolios for mortgage financing. Project-based assistance allows PHAs to leverage the project-based subsidy to attract more private dollars, mainly through mortgages. Project-based assistance also assures lenders that rent payments are guaranteed, and is usually the first piece in securing private financing—making affordable housing deals more feasible.

The Process Constraint
In a tight real estate market PHAs are no match for their private competitors, even in rare cases when they have sufficient resources to develop property. In order to purchase or build property, PHAs must go through a series of approvals carried out by HUD. This is a review process done by HUD to assure that government funds are used appropriately. The approval process is very lengthy. By the time a PHA receives HUD approval, it may (and many times will be) too late to purchase property because someone else would have already bought the property. This creates substantial difficulties for PHAs that have the resources to acquire property. If a PHA is unable to gain site control, there is little chance for a site to be used for affordable housing.

Confronting the Constraints
The two constraints outlined above are issues that PHAs face in developing housing for low-income people today. The subsidies’ constraint limits a PHA’s ability to secure private financing through a loan or mortgage because the subsidy levels are not enough to pay debt service. The process constraint makes it difficult for PHAs to compete in a private market setting because
they risk losing the chance to acquire property, as they wait for HUD approvals. In order to develop housing in tight housing markets, PHAs need mechanisms that can provide them with (1) more flexible subsidy streams and (2) a quicker way to acquire property.

The next two chapters explore two vehicles that the Cambridge Housing Authority has used to produce affordable housing in Cambridge, despite these two constraints. The first vehicle, a nonprofit affiliate, has enabled the CHA to acquire property without having to go through the HUD approval process (accounting for the process constraint). It has also enabled the CHA to secure additional funding from sources like CDBG and HOME funds that have set-asides for nonprofit housing organizations. The second vehicle, the Moving to Work Deregulation Demonstration Program, has allowed the CHA to deregulate its subsidy formulas. As a result, there is now flexibility to use these subsidy streams to attract private financing (accounting for the subsidies’ constraint).

These vehicles are presented as mechanisms that PHAs can use if they are prepared (1) for the challenge of creating a nonprofit affiliate, and (2) to meet the high-performing goals that are required to enter the MTW program. Both vehicles are part of a strategy to be effective in producing more affordable housing. Chapter III discusses the formation of nonprofit housing affiliates by PHAs in Massachusetts, and Chapter IV explores the deregulation benefits that MTW provides to high-performing PHAs.
Chapter III. Public Housing Authorities and their Nonprofit Housing Affiliates in Massachusetts

In Massachusetts, many PHAs have formed or have become interested in forming nonprofit housing affiliates. These entities are created by filing articles of organization with the Secretary of State\textsuperscript{15}, then by applying for tax-exempt status with the federal government, which make them private 501(c)(3)\textsuperscript{16} corporations.

Housing Authorities in Cambridge (Chapter V), Springfield, Worcester, and other locales have formed nonprofit entities. Many PHAs in Massachusetts are frustrated because they have limited ability to do more in their communities about the increasing pressure to house low- and moderate-income residents, and the increasing momentum around Chapter 40B legislation. Chapter 40B of the Massachusetts General Laws, dictates that each incorporated town in Massachusetts, shall have 10% subsidized units as a part of their total housing stock. Only federally and state subsidized units count towards 40B calculations, as these units usually have a lock-in feature to assure that the units remain affordable over a number of years, typically 15 or more years. Some PHAs have received much needed help addressing their goals, as a result of forming nonprofit affiliates.

Nonprofit housing affiliates provide two main benefits to PHAs interested in developing affordable housing: (1) more flexibility in acquiring property in tight housing markets; (2) and more funding opportunities.

This chapter provides information on how a nonprofit affiliate can be one vehicle for PHAs to develop affordable housing. Creating a nonprofit can be a challenging, and as such, PHAs need

\textsuperscript{15}Other states will have different laws for how and if PHAs can form nonprofit entities. Massachusetts, which is one of the few states that has state funded public and leased housing, has rules on how these entities can be formed, although there legality and jurisdiction is still unclear.

\textsuperscript{16}There are complex questions about whether a nonprofit affiliate would be considered a municipal agency or a 501(c)(3). For simplicity, I use the 501(c)(3) model, as it applies to my case study of the CHA, which will be covered in Chapter V. However, PHAs must decided with their legal council which type of entity is right for them, as each entity has different legal ramifications. See Krokidas & Bluestein, Attorneys (2000) “Housing Authorities and Affiliated Nonprofits Corporation in Massachusetts.” Report prepared for the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials and the Massachusetts Housing Partnership.
to be prepared for the task. This first section discusses why PHAs should create nonprofit affiliates. The last part of the chapter presents some of the capacity, management and legal issues that PHAs should be aware of when forming a nonprofit affiliate. These issues are presented as a guide for PHAs that are willing to take on the challenge of forming a nonprofit affiliate. These entities are clearly not for all PHAs—but for high-performing PHAs with incentives and a strong desire to meet their affordable housing goals.

Why Create A Nonprofit Affiliate
There are several reasons why a PHA should create a nonprofit affiliate. First, as stated in Chapter II, if a PHA wants to acquire property, it must first go through a review process with HUD. With a nonprofit housing affiliate, the PHA can acquire property through the nonprofit, and as a result, has no obligation to report this to HUD—as HUD resources are not used. Also, a private nonprofit is free to acquire property at its own discretion. It can give a PHA the flexibility to move quickly enough on the private market when real estate becomes available if it has the resources to do so. If a nonprofit purchases property, it assumes ownership of that property. But as the parent organization, a PHA will technically own the property.

A PHA can also use property acquired through a nonprofit as security for a mortgage. This is crucial to the development process. As noted, PHAs had a difficult time securing a loan because their subsidy streams did not provide enough cushion to pay debt service for a loan (Chapter II). Further, PHAs cannot mortgage their public housing properties. 17 As a result, their ability to secure private capital is greatly enhanced through by acquiring property through a nonprofit.

Second, a nonprofit housing affiliate qualifies for funding opportunities 18 that a PHA does not. As a 501(c)(3) tax-exempt organization, it is eligible for funding from corporations, foundations,

---

17 Under the Quality Housing and Work Responsibility Act of 1998, the government gave PHAs the authority to mortgage their public housing properties. They must apply to HUD for approval, but HUD has been reluctant to grant them permission to do this. Thus, the authority ends up having no real effect on PHAs' ability to secure a mortgage.

18 Although the focus of this paper is affordable housing development, some PHAs have formed nonprofits to attract funding for tenant services, like employment and computer skills training, and for providing services to public housing youth, through after school programs, and other educational or recreational activities.
and other organizations that only fund 501(c)(3) entities. Also, government programs like HOME and CDBG have set-aside for nonprofit housing developers. Under HOME, participating jurisdictions must set-aside 15% of their HOME funds for private, nonprofit housing organizations. Under CDBG, nonprofit housing corporations must do all new construction of affordable housing. These funding opportunities are important for PHAs, as they can leverage these public funds to secure private capital for development.

Third, in many communities, especially in Massachusetts, PHAs are the only affordable housing providers in town. There are no nonprofit housing providers, like Community Development Corporations (CDCs) and Community Housing Development Organizations (CHDOs). So in order to take advantage of the benefits that a nonprofit housing entity can provide, many PHAs should form nonprofits of their own.

Fourth, PHAs are the main (and in many cases, the sole) providers of housing to the poorest of the poor—those households at 30% and below AMI. Some argue that many CDCs and CHDOs mainly provide housing to those households between 50% and 80% of AMI (Nutt-Powell and Vito 1997). While PHAs can partner with these organizations to serve low-income people in general, they may need to create their own nonprofit to provide more affordable housing opportunities to this poorest of the poor population.

Fifth, many PHAs already have the ability to develop housing, but are limited by the HUD rules on property acquisition. A nonprofit can provide flexibility in this situation. Clearly, if PHAs have an interest in serving their population through development, nonprofits can help in that matter.

Clearly, there are benefits to creating a nonprofit affiliate, but there are also some issues that PHAs should consider as well.

---

19 PHAs must still apply for all of these funding opportunities, so they are not guaranteed. Yet they still provide PHAs with more funding options.
Capacity Issues
The capacity issue is related to how PHAs perform in managing their current public housing stock. High-performing PHAs will be better equipped to take on the challenges of forming a nonprofit affiliate. Other PHAs may lack the capacity and knowledge to do so.

First, a PHA must make sure it has the necessary staff. This is important because funders, lenders, potential tenants, and other stakeholders will need to have a contact person for the project. Also, during a project (if rehab or new construction), a staff person would need to have frequent contact with other possible parties—such as an architect, an engineer, and a contractor (Hecht 1999). The nonprofit staff time will depend on how many and the frequency of the projects it undertakes.

For example, when the Cambridge Housing Authority created its nonprofit, the Cambridge Affordable Housing Corporation (CAHC), it was not very active. The CHA only used the nonprofit as needed, and would shift a staff person to work on nonprofit business when there was property to acquire. This staff person would then go back to working on CHA business until there was an opportunity for the CHA to acquire property again.

Second, the PHA should make sure that its staff members have experience in working on affordable housing development deals. The best way to do affordable housing development is to practice it. There are many resources and models that a PHA can use to learn more about how the development process works (Hetcht 1999).

Third, the PHA may need to provide office space for the activities of its nonprofit. The staff of the nonprofit may require office space, especially if the nonprofit becomes very active. Space may also become important when the PHA decides on a management structure for the nonprofit affiliate (below). Depending on the kind of management structure, a PHA may space need space for events, like board meetings. This may be more of an issue for smaller PHAs, as larger ones may be able to easily create space within their organizations. Yet for the CHA, and some other PHAs in Massachusetts, the nonprofit solely exists on paper. This means that it occupies no official space. Its sole purpose is to be the official owner of property.
Management Issues
A PHA will also have to decide on the management structure of a nonprofit affiliate. Typically, there are three kinds of management structures—mirror boards, independent boards, and overlapping boards. Each has different benefits and costs. A PHA should be clear about its goal before it decides on a management structure.

Mirror Boards
A mirror board is when the Board of Commissioners of the PHA and the nonprofit board are the same. This is also known as a closely held nonprofit affiliate. There are some benefits to this arrangement. First, the PHA will have complete control over the activities of the nonprofit. There will be no conflict of organizational interests under this model, as the PHA will make decisions for the nonprofit affiliate. Second, this kind of board will facilitate the decision-making process for the PHA.

For example, when the PHA’s Board of Commissioners meets, it can also discuss nonprofit business, and make decisions without having to consult others. This can be key if a piece of property is for sale. The PHA can decide that the nonprofit will purchase the property, without having to wait for another meeting or another board to decide, as may be the case under the other management structures.

There are some possible costs to the mirror board arrangement. First, funders of the nonprofit and other stakeholders in affordable housing deals may be skeptical about the motives of the PHA board. They may feel more comfortable if an independent board made decisions for the nonprofit affiliate. Especially, if the PHA has a negative image in the community, and does not have strong relationships with community businesses, organizations and local government.

This has not been the case for the Cambridge Housing Authority, which has a mirror board for its nonprofit affiliate. This arrangement has worked well because of the strong long-standing relationships that the CHA board has built over the years in the Cambridge community. Some of the CHA board members have 25 years of experience with the organization. They have built a

---

20 See note 16.
solid reputation for the organization, and have received high ratings from HUD and other housing program evaluators—so outsiders are less likely to be suspect of their activities. Still, it may be hard for some PHAs to change their images, so they should consider their management options.

Second, oftentimes, effective decision-making takes place when there is a fresh prospective. A PHA’s Board of Commissioners may be too caught up in the old or past PHA style to see how a nonprofit may improve its ability to serve its population. Someone on the board with innovative ideas about affordable housing development may make the difference.

Independent Boards
An independent board is when the Board of Commissioners of the PHA and the nonprofit board are mutually exclusive. This means that there are different people on each board. The benefits of an independent board, are that a PHA may be better off distancing itself from its nonprofit if it has had a troubled past, or if it does not want funders, lenders, and other stakeholders to suspect that there may be any circumstance for wrong doing on the part of the PHA. The costs may be that (1) the PHA may not have complete control over the nonprofit, and (2) the decision-making process is more complicated and longer.

For instance, The PHA will need to decide what decisions the nonprofit can make on behalf of itself, how these decisions will be relayed to the PHA board, and what overriding powers it will use if a decisions is made that does nor conform with PHA goals. This can get complicated and may result in slowing down the decisions-making process, which can be crucial when developing affordable housing in tight housing markets.

Overlapping Boards
An overlapping board is when the same people on the PHA board also serve on the nonprofit board. This may be the best of both worlds—the mirror and the independent board, but each PHA’s situation should be evaluated. The evaluation of benefits and costs is mixed, as it will depend on how many of the board members from the PHA and the nonprofit are the same. The overlapping board may provide enough space between the PHA and the nonprofit for
stakeholders to invest resources and trust in the nonprofit, and (2) it may add to the decision-making process.

**Legal Issues**
A PHA should also consider some legal issues when forming a nonprofit housing affiliate. Depending on the management structure chosen, a PHA ultimately may face liability issues when acquiring property. The amount of control that a PHA has over its nonprofit may decide whether state laws apply—there are many unanswered questions about the legality of these entities, as this is a fairly uncharted area of the law in Massachusetts. A PHA should be ready to take on the challenge and not be discouraged by the legal issues that follow, as there are always risks in acquiring real estate.

First, depending on the cost and size of the property, a PHA may want to reduce the exposure that it has to liability claims. In real estate deals, anything can go wrong—tenants and neighbors may find cause to bring a suit; there may be a discovery of hazardous materials on the property, among other things. If there were ever a lawsuit against a nonprofit affiliate concerning its property, a PHA could suffer consequences. The first line of defense would be the nonprofit, but depending on how the management structure is interpreted by the law, the PHA may be legally responsible. As a result, a PHA may choose to limit its, as well as its nonprofit’s, exposure to liability claims.

Some PHAs have done this by forming Limited Liability Corporations (LLC) to own their large, expensive properties that are acquired by their nonprofits. A LLC limits its members’ exposure to liability, as they are not “liable for obligations beyond their investments” (Schorr 1992, p.26).

For example, the CHA recently formed a LLC through its nonprofit affiliate CAHC, called the Lancaster Street Limited Liability Corporation, to own a large 65-unit property that its nonprofit acquired. The membership interest of the LLC is held by the Cambridge Affordable Housing Corporation, CAHC. The LLC will limit the CAHC’s liability exposure to the investment it has made to acquire the property.
Procedures for forming an LLC are similar to those for forming a nonprofit. Similar management decisions must be made as well. For the most part, the LLC is a paper entity, simply formed for ownership and liability purposes. This is a complicated area of the law, and states have different rules. A PHA should seek legal advice when deciding on what kind of entity to use to reduce its liability exposure (Schorr 1992).

Second, depending on how the nonprofit entity is structured, there may be an issue with the State Ethics Law, which applies to public entities. This law basically seeks to ensure that “public officials and employees...perform their municipal duties independently and impartially [of the private sector], and not for private gain.” PHAs in Massachusetts are considered to be municipal agencies, thus the State Ethics Law applies. The concern here is that if decisions made by the PHA affect the nonprofit affiliate’s operations and vise versa, the organizations may been seen as one in the same, and therefore in violation of the law that forbids public entities to be influenced by private sector entities and vice versa.

Third, under Massachusetts General Laws “a housing authority is not financially and politically independent...[the State Department of Housing and Community Development] regulates the creation, powers and liabilities of a housing authority.” Thus, it is not even clear if PHAs in Massachusetts can make decisions to create nonprofits on their own.

The legal issues are important for a PHA to weigh, but they vary from state to state. Yet a nonprofit may be the only choice that some PHAs have in helping to house their low-income population. Still, the nonprofit affiliate is only one vehicle in a two-vehicle means to produce more affordable housing opportunities. The other vehicle is the Moving to Work Deregulation Demonstration Program. Chapter IV explores the MTW program, and the deregulation benefits it provides PHAs.

21 Ibid, p.6  
22 Ibid, p.4
Chapter IV. The Moving to Work Deregulation Demonstration Program

The Moving to Work Deregulation Demonstration Program (MTW) is a unique and unprecedented initiative because it gives PHAs flexibility in determining how to use their subsidy streams and in creating programs to find solutions to local housing issues.

This chapter outlines the specifics of the MTW program. The first section provides a brief history and description of the program. Section two provides some details on the deregulation it provides to PHAs. Section three discusses the baseline evaluation of the MTW sites, conducted by the Urban Institute. The last section explores some of the challenges that PHAs may face in adapting to the MTW program.

Program Overview

Legislative History
On April 26th, 1996, President Clinton signed Public Law 104-134 (or H.R. 3019), the Omnibus Consolidated Rescissions and Appropriations Act of 1996. Under Title II, Section 204 (b) of this law, the Secretary of Housing and Urban Development was authorized to “conduct a demonstration program...beginning in fiscal year 1996 under which...public housing agencies [including Indian housing authorities]” may be selected to participate. The Demonstration, later called the Moving to Work Deregulation Demonstration Program (MTW), was designed for PHAs to explore different ways to

- promote self-sufficiency among assisted families
- achieve programmatic efficiency
- reduce costs
- increase housing choice for low-income households

---

23 This can mean developing more units through acquisition, rehab, or new construction or providing more housing choice through tenant- or project-based assistance, or other means of increasing housing opportunities for low-income households.
The MTW program was initiated by groups like the Council for Large Public Housing Authorities (CLPHA) and the National Association for Housing and Redevelopment Officials (NARHO) that pressured Congress to allow high-performing PHAs to participate in a deregulation experiment. The idea was to give these PHAs more authority to decide how to better address their local housing conditions. This was not intended to be a program for all PHAs, but for those PHAs that have been exceptional in managing their programs over the years. High-performing PHAs would have the capacity to achieve what the deregulation of the program required.

**Program Description**

PHAs must apply to HUD to participate in the MTW program. HUD selects PHAs based on their Public Housing Assessment System reports (PHAS) and the potential for them to achieve their goals under the program. The PHAS—an annual assessment tool that assesses how well PHAs manage their low-rent housing—is used to rank PHAs. There are three categories: high-performing, standard or troubled and/or mod-troubled (troubled with respect to the modernization needs).

Each PHA also has to submit an annual plan, detailing how it will meet its goals under the MTW Program. This plan is submitted in lieu of the PHA Annual Plan, which was a new requirement of all PHAs under the Quality Housing and Work Responsibility Act (QHWRA) of 1998 (NARHO 2000). A PHA must hold a public meeting, before its Board of Commissioners can approve the MTW plan.

The MTW sites must also: (1) certify that at least 75% of assisted families will be very low-income households when they enter the MTW program; (2) assist the same total number of low-income families as they die before entering the MTW program; (3) establish a reasonable rent policy for program participants; (4) assure that the quality of housing will meet HUD standards.

**Deregulation**

Under the MTW program, “an agency may combine operating assistance...modernization assistance...and assistance provided under Section 8 for the certificate and voucher programs, to provide housing assistance for low-income families, and services to facilitate the transition to
work” (1996 Act). In other words, PHAs are now able to use their different subsidy streams as one fungible pool or financial resource to carry out their missions. This is not to imply that PHAs have complete freedom to spend their combined subsidies unwisely, as they are subject to annual independent audits. \textsuperscript{24} Rather, the MTW program gives PHAs the opportunity to have some affect on how their communities’ housing stock changes, because they now can direct some of their subsidies to local housing issues.

For example, PHAs can use the combined subsidies to acquire property, as security for a mortgage, and for other projects—things that were almost impossible for many PHAs before the MTW program because they had to use these allocations for the specific programs.

Along with subsidy flexibility, PHAs also can save time and resources because programmatic reporting that HUD requires for public housing and Section 8 programs are suspended for the MTW sites. This allows the MTW sites to implement their demonstration plans. Each site, however, submit an Annual Report, which summarizes their MTW activities for the year. This report takes the place of HUD’s conventional performance measures (SEMAP and PHAS).

The MTW program allows PHAs to combine their funding streams, but it does not directly provide them with additional funding; \textsuperscript{25} they will get at least the same amount of federal subsidies as they did before entering the program. Yet, the flexibility—the ability to use the income stream for affordable housing development—of combined subsidies can create income by attracting private funding, which is a major key to providing housing to low-income households.

\textsuperscript{24} PHAs are require to follow two other rules: (1) the demolition and disposition of public housing, under Section 18 of the Housing Act of 1937 (as amended), and (2) labor standards, under Section 12 of the same Act. First, PHAs need to follow procedures outlined in Demolition/Disposition Internet Submission System (DDISS) that layout the administrative perform demolition/disposition activity. Second, PHAs must abide by and issue a report on Department of Labor Regulations, which require federal agencies administering programs to follow Davis-Bacon wage rates and Contract Work Hours and Safety Standards (CWHSSA) guidelines.

\textsuperscript{25} Except a $5 million fund available to participating PHAs who requests funding for training and technical assistance in implementing MTW programs.
The MTW Program Baseline Evaluation
The Urban Institute has conducted a baseline report on the MTW program. They find that the participating PHAs have taken on a number of initiatives focused on employment, increasing housing choices, homeownership, occupancy rules, and new rent policies. As a result of these varied initiatives, the MTW evaluation will measure two components: process and outcomes. The process component will describe the changes that PHAs have made in their programs, and how they have evolved over time as a part of the MTW program. The outcomes component will evaluate how each site has succeeded in meeting the goals it has stated in its annual plan. While it is too early to say how these sites are meeting their goals, the program is clearly unique “as each site proposes its own ...set of federal waivers.... [Thus the] MTW serves as a laboratory for observing what would happen if uniform federal rules no longer applied [to PHAs]” (The MTW Program Baseline Report, p.i).

The Challenges of the MTW Program
While the MTW program provides unprecedented opportunity for PHAs, there are some challenges that many may face in adapting to the program.

For years PHAs were required to strictly adhere to HUD regulations. Many PHAs have been too busy making sure (1) that funding streams do not spill over into each other and (2) that HUD reporting requirements are met. Further, and as a result of the negative media attention that PHAs received (Chapter I) many kept to their own business of operating public housing and administering Section 8 vouchers, as not to draw more negative attention to themselves or HUD. How will the deregulation under the MTW program affect the way some PHAs have been used to operating?

In particular, how will PHAs respond to the “new freedom” of deciding how best to spend their subsidy streams? Will they need as many staff people to control their newfound freedom, as they did to abide by HUD regulations? Also, how will their neighborhoods respond to them playing a larger role, or having a greater voice? Each MTW participant will need to investigate these questions as it adapts to the program.
The MTW program provides PHAs with great opportunities, but it is limited to 32 PHAs. Other high-performing PHAs may want the chance to participate. While the program gives flexibility in using HUD subsidy streams, PHAs still have HUD property acquisition rules and the issue of additional funding remains. How do PHAs address these factors?

In Chapter III, there was a discussion about the formation of nonprofit housing affiliates, as a vehicle to address the process constraint that PHAs face in acquiring property. This Chapter explores the MTW program, as a vehicle to address their subsidies' constraint. Chapter V explores the Cambridge Housing Authority's success in using both vehicles to create a development capacity, and provide more affordable housing in Cambridge.
Chapter V. The Case of the Cambridge Housing Authority

Given the elimination of the development funding stream in 1996, and the practical impossibility of using the Capital Fund for development activity due to competing priorities such as modernization costs, how can PHAs develop affordable housing? This chapter explores how the Cambridge Housing Authority (CHA\textsuperscript{26}) created a development capacity—by using its nonprofit housing affiliate and the MTW program.

The first section provides information on the CHA’s nonprofit affiliate’s, the Cambridge Affordable Housing Corporation (CAHC), development activities before the CHA became an MTW site. The aim is to show that while the CHA is using CAHC to successfully add units to the supply of affordable housing in Cambridge, its potential is greatly enhanced when combined with the MTW program because of the deregulated subsidy streams. The second section explains how the CHA created its development funding capacity using the program. The third section highlights some development projects that the CHA has completed through its nonprofit and its MTW status. The last section discusses some future challenges that the CHA may face.

The Cambridge Affordable Housing Corporation
The Cambridge Affordable Housing Corporation (CAHC) is a nonprofit 501(c)(3) entity, which was created by the CHA in 1989. Its sole purpose is to develop affordable housing in Cambridge. CAHC exists only on paper, and is used by the CHA as needed.

It is a closely held nonprofit housing affiliate, as it has a mirror board to the CHA.\textsuperscript{27} This arrangement allows the CHA to promote its goal of creating more affordable units for the population it serves—something that it may not be able to do if it solely partnered with another nonprofit housing developer (see Chapter III).

\textsuperscript{26}The CHA manages 1945 federally assisted and 663 state-assisted conventional public housing units. In addition, it administers 1674 vouchers, under the Section 8 program, and 242 vouchers under the Massachusetts Renter Voucher Program (MRVP), and the Alternative Housing Voucher Program (AHVP). The state voucher programs are similar to the federal program, but the state programs have lower allowable rent payments.

\textsuperscript{27}The CAHC board is the same as the CHA board, except that the Executive Director, Daniel J. Wuenschel, of the CHA also serves on the board of the CAHC. The CHA has staff that split their time working on CHA and CAHC business, as needed. Please refer to Chapter III for a full discussion on capacity and management issues.
In reflecting on why the CAHC was created, Mr. Daniel J Wuenschel, the CHA Executive Director notes,

“At the time we saw what was happening to the Public Housing Development Fund and knew that there would be no more. Under the Carter Administration there was funding for 100,000 units annually. When President Reagan took office, there was practically no funding left. In my view, if a public housing agency is not involved in developing housing, it atrophies. It's like sort of doing your aerobics especially when there is an overwhelming need for low-income housing, like there is in Cambridge. We [public housing authorities] need a development function. Today, many of us get it through HOPE VI; others will find another way. We wanted to be prepared when the time came. The CAHC has helped in this regard.”

At the time, there was also an increasing need to preserve affordable units, as a result of skyrocketing housing prices in Cambridge. From 1994 to 1999, single-family home median sale prices increased 39% to $425,000. Two- and three-family home sales prices also increased 75.3% ($412,000) and 89.3% ($405,000), respectively. According to the National Low Income Housing Coalition estimates for the Median Renter Income (MRI) in Cambridge, a renter would need to earn 86% (or $58,846) of AMI to afford a two-bedroom apartment at the current FMR of $979. An estimated 44% of Cambridge renters would be unable to afford a two-bedroom unit using these figures.

Yet the number of renters unable to afford a two-bedroom apartment in Cambridge is actually higher than 44%. The lowest quoted rent for a two-bedroom apartment in Cambridge is $1,414, close to 144% of the FMR (City of Cambridge, Housing Division 2000). Currently, HUD will not fund apartments that are 144% of FMR; under special circumstance it will fund apartments at 120% of FMR. Out of the 41,320 housing units in Cambridge, only 16.4% (6777) are affordable (City of Cambridge, Housing Division 2000). As the figures show, housing affordability for low-income households is a serious issue in Cambridge.

The CHA, as a result, needed a mechanism that allowed it to play a role in finding solutions to the housing problem. The CAHC was a part of the solution (the MTW program, which is another part, will be discussed later). Since its inception, the CAHC has acquired 18 condo units, two six-unit buildings, and then a 65-unit building through the Lancaster Street Limited Liability Corporation (see Chapter III for discussion on LLC).
The CAHC achieved this because it can (1) attract private funding, and can (2) move faster than the CHA, which has to acquire HUD approval in closing real estate deals on the private market. Further, the CAHC is successful because it has the CHA—which has a strong reputation as a developer and manager of affordable housing.

Under a typical condo deal (pre-MTW), there were two main sources of funding to CAHC—the Cambridge Trust Company and the Cambridge Affordable Housing Trust (See Table 2).

| Table 2. Typical Funding Sources for CAHC Condo Acquisition Deal Before The MTW Program |
|---------------------------------|------------------------------------------|
| **The Cambridge Trust Company**: This is a local bank in Cambridge. It provides loan financing to the CAHC on its condo acquisition deals, in the form of a conventional first mortgage. |
| **The City of Cambridge Affordable Housing Trust**: This is a public fund created by the City of Cambridge to address the affordable housing needs of the city. The Trust is funded through city surplus monies and a portion of transfer realty tax fees. The City provides deferred 0% second mortgages—up to $40,000 per unit of affordable housing. |

Source: Cambridge Affordable Housing Corporation, 2001

With this kind of financing, the CAHC was able to acquire available condos. It then used project-based CHA Section 8 tenant vouchers to tie the unit to the supply of affordable housing in Cambridge (See Table 3). The flexibility that the CAHC provided was essential, no matter how incremental the condo deals were. In essence, the CAHC restored a vital development function to the CHA.

**The MTW Program and The Creation of a Development Fund**

With more than 9000 households, almost 10% of Cambridge’s population, on its waiting list for conventional public housing and Section 8 programs, the CHA is hard pressed to find housing solutions for low-income households. As a result, in its fiscal year 2001 MTW Annual Plan 28, the CHA lists as one of its goals “the development of new, permanently affordable housing.” How the CHA has gone about achieving this goal is very much linked to the flexibility it has in the MTW program. The program allows the CHA to combine monies under its conventional

---

28 This is the CHA’s second year as an MTW site. It has a contract for MTW until 2006.
low-rent public housing program (Operating Subsidy and the Capital Fund) with those in its Section 8 program.

<table>
<thead>
<tr>
<th>OPERATING STATEMENT</th>
<th>Sources and Uses Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-BR Unit</td>
<td>Price: $85,000</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td><strong>Sources</strong></td>
</tr>
<tr>
<td>Section 8 Receipts</td>
<td>Cambridge Trust Company</td>
</tr>
<tr>
<td></td>
<td>$64,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>Cambridge Afford Housing Trust</td>
</tr>
<tr>
<td>Condo Fee*</td>
<td>$21,000</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Total Sources $85,000</td>
</tr>
<tr>
<td>Management Fee</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$402</td>
</tr>
<tr>
<td><strong>Cash Flow Before Taxes</strong></td>
<td>$521</td>
</tr>
<tr>
<td>Real Estate Tax</td>
<td>(70)</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>$551</td>
</tr>
<tr>
<td>Debt Service (1.1 DSC**)</td>
<td>(409)</td>
</tr>
<tr>
<td><strong>Cash Flow</strong></td>
<td>$42</td>
</tr>
</tbody>
</table>

*Includes Utilities and Maintenance

**Cambridge Trust Company first mortgage. Term of loan is 30 years with an interest rate of 7.50%**

Further, combining the subsidy streams has given the CHA the ability to create a “single fund budget with full flexibility...including provisions allowing these funds to be used for the acquisition, new construction, and rehabilitation of affordable housing units. (CHA Fiscal Year 2001 MTW Plan, page 21).

“Flexibility” means that the CHA can decide how to use its subsidies as it sees fit. Before the MTW program, each subsidy stream could only be used for its specified program (See Chapter II). Now, the CHA can decide whether to use monies in its single fund budget to acquire property, to do modernization work, or to partner with other nonprofit to increase its tenant voucher utilization rate. This allows the CHA to prioritize its needs and goals, and to better address the needs of its constituents.
There is no specified amount of money in the single budget fund. Yet under the MTW program there are new subsidy formulas\textsuperscript{29} for the operating subsidy and the Section 8 program, which allow the CHA to add any extra income from increases in tenant rent payments to the single budget fund.

First, under the old agreement for public housing operating subsidy, HUD provided an operating subsidy\textsuperscript{30} based on the CHA’s average tenant rental income. If average tenant income increased the subsidy decreased and vice versa (Chapter II). Now, under the new CHA MTW plan,\textsuperscript{31} HUD provides the CHA with a fixed operating subsidy—adjusted annually by an inflation factor—and the CHA is allowed to keep all excess tenant rental income.\textsuperscript{32} The excess income can be added to the single budget fund. Last year’s estimate for excess tenant rental income was close to $500,000.

Second, under the old Section 8 program, HUD provided the CHA with a Housing Assistance Payment (HAP) equal to the difference between the FMR (up to 120\%) and 30\% of average tenant income of the Section 8 vouchers in use. This worked like a draw down system where at the end of the year HUD would reimburse the CHA for payment that it made to landlords during the year (See Chapter II).

Now, under the MTW Plan, HUD provides the CHA with an up front block grant—assuming a 100\% utilization rate of its Section 8 vouchers—equal to the difference between 120\% percent of FMR and average tenant rental income. The up front block grant, at a 100\% utilization rate, benefits the CHA because if the average tenant rental income in the Section 8 program increases,

\textsuperscript{29} The formula for the Capital Fund has not changed under the MTW program (See Chapter II).
\textsuperscript{30} As in Chapter II, the utilities subsidy is held constant and is treated as a pass through grant to simplify the example.
\textsuperscript{31} Again, this may not be the case with all MTW sites. This is what the CHA has worked out with HUD. The parameters of the MTW agreement depend on the goals a PHA wants to achieve.
\textsuperscript{32} This is in part due to positive economic conditions and the availability of jobs in and around Cambridge. It is also due to successful employment programs that are conducted by the CHA tenants services division, and to higher ceiling rents in its public housing developments. Under the new rent ceiling in public housing, tenant rents do not rise automatically when their income rise, so there is some incentive for them to seek higher wage jobs.
the CHA will pay out less to Section 8 landlords\(^3\) — and can add what is left of the block grant to the single budget fund. The CHA also pays out less to Section 8 landlords that rent apartment below 120\% of FMR, which can result in more resources for single budget fund as well.

The new Section 8 program formula also allows the CHA to better respond to the changing rent prices in Cambridge. The up-front grant allows it to respond to current market conditions. Under the old Section 8 program formula, the CHA was always trying to catch-up because HUD made end-of-the-year payments based on the prior year’s FMR rent levels.

With the excess rental income and the extra financial cushion of the Section 8 up-front grant, the CHA is able to provide financing for affordable housing opportunities in Cambridge. The CHA has essentially created a development funding capacity, where none existed before. Through its nonprofit and the MTW program, the CHA has been involved in two kinds of development activities—(1) acquisitions and (2) financial assistance, through Section 8 project-base assistance, to other nonprofit affordable housing providers in Cambridge.

**Acquisitions**
The CHA has extended it condominium acquisition program, which was started under the auspices of CAHC. It has a three-year goal of 25 condo acquisitions. Under the MTW plan, the process has accelerated a bit, as there is more financing available—as a result of the single budget fund. This budget has been crucial, considering that condominium prices in Cambridge continue to rise. From 1994-1999, the median sales prices of condominiums have increased by 49\% to $252,000. The increased condo prices have also made the financing packages for acquiring these condos more complex.

Thus, CAHC needs to tap into more financial resources. There are more funding sources under the typical condo deal using CAHC and the MTW program. The funding sources under these

\(^3\)Note that Section 8 landlords include all owners of property under the CHA’s Section 8 program that have tenant- and project-based assistance. The CAHC and the LLC are owners of property where Section 8 assistance is used. Thus, the CHA makes payments these organizations as well. The CHA would not be able to make payments to itself, as all the property it owns is considered public housing—and Section 8 payments cannot be tied to public housing units (Cambridge Housing Authority 2001).
condo deals are the Massachusetts Housing Partnership, the Cambridge Affordable Housing Trust and the CHA MTW Development Fund\(^\text{34}\) (See Table 4).

<table>
<thead>
<tr>
<th>Table 4. Typical Funding Sources for CAHC Condo Acquisition With the MTW Program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Massachusetts Housing Partnership:</strong> This organization provides financing through loans for affordable housing development in Massachusetts. The CHA uses two forms MHP mortgages. It has a conventional first mortgage, and a MHP second mortgage, which has a deferred 0%, interest rate—up to $40,000 per unit.</td>
</tr>
<tr>
<td><strong>The Cambridge Affordable Housing Trust:</strong> This is a public fund created by the City of Cambridge to address the affordable housing needs of the city. The Trust is funded through city surplus monies and a portion transfer realty tax fees.</td>
</tr>
<tr>
<td><strong>CHA MTW Funds:</strong> The CHA loans this money to the CAHC as a second mortgage with deferred 0% interest. All the CHA deals are set up as loans to the CAHC.</td>
</tr>
</tbody>
</table>

Source: Cambridge Affordable Housing Corporation, 2001

The single budget fund allows the CHA to continue its condo acquisition program, despite the higher costs and the more complex financing.

For example, in 1996, the CAHC acquired a condo for $85,000 (Table 3). Last year, it acquired a similar condo for $136,000 (Table 5)—which is $50,000 more expensive. The CAHC has been able to keep up with the market (in a sense) because of the flexibility of the MTW program, and its ability to attract other private funding sources.

The CHA invests in these condos because one of its goals is to give its constituents a choice. Many low-income households want to live in Cambridge, thus the CHA wants to preserve affordable units for them to do so. The more condo units it can acquire, the more units will be added to the stock of affordable housing. This housing will also stay affordable because it is owned by the CAHC. CAHC has been able to acquire four condos in fiscal year 2000, and expects to acquire 5 to 7 more in fiscal year 2001.

\(^{34}\) Again, as noted above, the CHA has full flexibility in using its single budget fund as outlined in its MTW plan. For the acquisitions, all funding from the CHA's single budget fund is arranged as soft second loans to the CAHC with deferred 0% interest.
Table 5. Sample Condo Acquisition Deal With the MTW Program: Property at 40 Clifton Street, #14

<table>
<thead>
<tr>
<th>2-BR Unit</th>
<th>Price: $125,000</th>
</tr>
</thead>
</table>

**OPERATING STATEMENT**

<table>
<thead>
<tr>
<th>Revenue Section 8 Receipts</th>
<th>$1,056</th>
</tr>
</thead>
</table>

**Expenses**

| Condo Fee* | $250   |
| Maintenance | $50    |
| Management (4% of rent) | $42    |
| Insurance | $30    |
| Reserves | $42    |
| **Total** | $414    |

Cash Flow Before Taxes $642
Real Estate Tax (80)
Net Operating Income $562
Debt Service (1.2 DSC**) (468)
Cash Flow $98

**SOURCES AND USES STATEMENT**

<table>
<thead>
<tr>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>MHP First Mortgage $59,500</td>
</tr>
<tr>
<td>MHP Second $38,000</td>
</tr>
<tr>
<td>CAHT $24,250</td>
</tr>
<tr>
<td>CHA Section 8 $14,604</td>
</tr>
</tbody>
</table>

Total Sources $136,354

<table>
<thead>
<tr>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition $122,000</td>
</tr>
<tr>
<td>Capital Improvements $10,000</td>
</tr>
<tr>
<td>Short-Term Real Estate Tax $954</td>
</tr>
<tr>
<td>Closing Costs $3,400</td>
</tr>
</tbody>
</table>

Total Uses $136,354

*Includes gas, heat, and hot water
**The Massachusetts Housing Partnership Debt Service Coverage Factor is 1.2. The Term for the loan is 30 years, with an interest rate of 8.75%. The MHP second loan is with deferred 0% interests.

To augment its condo acquisition program, the CHA is also actively looking to acquire rental units. Recently, the CHA has acquired a 65-unit apartment building, which it would not have been able to do without CAHC and the MTW program. The CAHC has formed a limited liability company called the Lancaster Street Limited Liability Corporation to own the property. Under this deal, CAHC secured funding from three sources that were crucial—(1) the Harvard University Affordable Housing Fund, (2) City of Cambridge Affordable Housing Trust, and (3) CHA MTW funds.

The Harvard Fund and the City of Cambridge Affordable Housing Trust are particularly for nonprofit housing developers, something that the CHA would not have qualified for alone.
Further, the MTW funds add financial feasibility to the deal, as it provided $2.8 million in debt financing for the project (See Table 6). The total cost of the project is $11.4 million.

There are studios and one-bedroom apartments in the building. The unit mix for the building, after renovations, will be 70% Section 8 project-based units and 30% moderate-income units (80-120% of AMI). The CHA is able to “project-base” Section 8 tenant-based vouchers for 46 units in this deal. On average, Section 8 receipts will be $803 for studios (20), and $902 for one-bedrooms (26) per month. The moderate households (19) will bring in $1,150. In total, the project adds 65 more units to the affordable stock in Cambridge.

*Harvard Fund has a term of 20 years, at 2.0% interest rate. These funds are provided through the City of Cambridge.

**East Cambridge Savings Bank Mortgage has a term of 30 years, at an 8.0% interest rate.
Further, all the sites that the CAHC owns generate positive cash flow, which can be used to acquire more property. This cash flow technically will not be added to the CHA’s single budget fund, but it will compliment monies from this fund to develop more properties through the CAHC.

In addition to the condo acquisitions and the 65-unit building, the CHA has also acquired two 6-unit buildings. These projects follow a similar vein to the 65-unit deal. So they add another 12 units of affordable housing to the stock in Cambridge. Adding the condos (18) and the apartment deal (65), the CHA has acquired 93 units, and 81 of them under the MTW program.

Financial Assistance to Other Nonprofit Housing Providers
The CHA has been in partnerships with other Cambridge nonprofit housing providers for several years. The two main organizations that it works with to provide more affordable housing opportunities for low-income peoples are the Just-A-Start Community Development Corporation and Homeowners Rehab, Inc. Throughout the years, it has assisted these organizations through providing them with Section 8 project-based assistance to support their financing packages (Cambridge Housing Authority 2001).

Since the CHA became an MTW site, it has been able to provide these nonprofits with more Section 8 assistance as a result of the flexible subsidy streams. Over the past two years, CHA financial assistance to these organizations has resulted in 100 more units of affordable housing in Cambridge. Nonprofits benefit from using CHA project-based assistance, as it adds to the financial feasibility of their projects. Lenders are more likely to fund affordable housing development projects that have a stable rental income stream. Project based assistance provides this stability—although it is subject to annual appropriations for contract renewals by Congress.

The CHA benefits as well. This is counted as one more placement, and most likely of one more household from its main population—those as or below 30% of AMI. The CHA will continue using this strategy to increase the number of affordable units.
Future Challenges for the CHA
The CAHC and the MTW program have helped the CHA to play a significant role in providing more affordable housing opportunities in Cambridge. Yet there are some challenges that the CHA may face. First, while the CAHC is only a use-as-needed entity, issues could arise in the future about whether its structure is legally sound. These issues are currently being worked out in Massachusetts, and may affect the CAHC and its operation.

Second, although the CHA has been able to generate extra rental income under the MTW program, a downturn in the economy may erase these extra gains, and limit the amount of monies that the CHA can use for its development fund. So far, this has not been a problem for the CHA, as 51% of its tenants have salaries and wages as their main source of income (CHA, 2001); the average for PHAs across the nation is 34% (Vale 1998). Also, its rent collection rate is 99.25%. Further, the CHA is building up reserves to account for this kind of situation. Yet there is concern about the stability of the operating subsidy and Section 8 program formulas under the MTW program. It may be that, if public housing tenants’ and Section 8 recipients’ employment situations change in the future, the reserves will have to be used to pay for basic operating expenses and to pay Section 8 program landlords, as the operating subsidy and the up-front Section 8 grant will not be sufficient.

Third, there is a claim that real estate markets are cyclical in nature—they shift between tight markets where housing prices rise, and loose markets where housing prices decrease (DiPasquale and Wheaton 1996). But in Cambridge it seems as though housing prices continue to rise, which results in higher rents. With the growing number of relocations to and business upstarts of many biotech and technology firms in Cambridge, there does not seem to be a housing market slowdown in the near future. The CHA has been persistent in trying to tie more affordable units to the Cambridge community, but will the current subsidy mechanisms under the MTW program allow it to purchase even more expensive properties? Will housing prices increase to a level where the CHA can no longer afford to acquire property?
Chapter VI. Conclusion

The Cambridge Housing Authority experience is a success story about a PHA’s ability to create a development capacity where none existed before. Cambridge was able to achieve this success because it took on the challenge of forming a nonprofit affiliate, and of pursuing admission into the MTW program. The nonprofit not only provided the PHA with the flexibility it needed to acquire property, but also with a vehicle to take risks and be as daring as private market developers. The MTW program gave the CHA the vehicle to recreate its own version of the public housing development fund that was eliminated in 1996. This new funding capacity has allowed the CHA to afford higher priced developments, and attract more private financing. Both vehicles, have allowed the CHA to build housing in a tight housing market where housing and rents prices have skyrocketed over the last few years. The CHA model is adaptable and workable. Other PHAs, in tight real estate markets, should take the CHA example as a license to investigate how they too can began addressing the low-income housing issues of their communities.

Yet the combination of a nonprofit affiliate and the MTW program is not for all PHAs. Like the CHA, PHAs need to have a record of excellence in managing their public housing stock and in administering Section 8 vouchers. PHAs have to meet a certain standard of competence—rated by HUD performance indicators—to participate in the MTW program. There are some PHAs that already meet this standard, but cannot participate because the MTW program is limited to 32 participants. These PHAs should have the opportunity to emulate the housing solutions that the CHA has achieved.

The following matrix (Figure 2) proposes a standard that Congress should authorize HUD to use in evaluating admission into the MTW program—to reward and allow high-performing PHAs to do more. The matrix also adds expanded deregulation provisions, to account for some of the shortfalls in the current MTW program. An expanded MTW program would allow all high-performing PHAs that score well on HUD performance indicators (PHAS and SEMAP)\(^{35}\) to be eligible to participate in the MTW program (Box B). This will eliminate the limit on the number

\(^{35}\) Public Housing Assessment System (PHAS) and Section 8 Management Assessment Program (SEMAP).
of participants, and allow all high-performing PHAs that applied, and were accepted, to gain admission to the MTW.

Figure 2. Matrix of Expanded Programs Based on the Current MTW Program

<table>
<thead>
<tr>
<th></th>
<th>Current MTW</th>
<th>Expanded MTW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Deregulation</td>
<td>• 32 High-Performing PHAs</td>
<td>• All High-Performing PHAs are eligible</td>
</tr>
<tr>
<td>Provisions of the MTW</td>
<td>• Deregulated Subsidy Streams</td>
<td>• Deregulated Subsidy Streams</td>
</tr>
<tr>
<td>program</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expanded Deregulation</td>
<td>• Expanded Capital Fund Program</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>• Additional Funding</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The expanded MTW program would also include new deregulation provisions, beyond the deregulated subsidy streams (Box A, also see Chapter IV). The new provisions call for an expanded Capital Fund program and additional funding for the MTW program. The first provision is a new Capital Fund program that will better address the current capital needs of PHAs (Box C). To give high-performing PHAs a little more room to develop affordable housing under their MTW plans, the Capital Fund program will (1) promote mixed-financing opportunities and (2) increase funding for the Capital Fund. Currently, Congress allows PHAs to pledge future Capital Fund monies for loans and to issue bonds. Yet these programs are fairly new and many PHAs do not have experience with them. There needs to be a better system for assuring future Capital Fund monies. Congress can do this by permitting HUD to distribute contractual agreements (like a promissory note) to PHAs that promise future Capital Fund monies. This way, PHAs can go to banks and other lenders with more assurances about how they will make debt service payments. Also, the fiscal 2001 budget cuts Capital Fund monies by some $700 million dollars. Clearly, this is a step in the wrong direction with current overall PHA capital needs at $23 billion. More funding is actually needed.

The second provision is mainly for those PHAs who do not have increasing average tenant rental income levels. The CHA was able to create a development fund because of the increased level of average tenant rental income in its conventional public housing program, and the reduced
payments to Section 8 landlords as a result of increased income levels for Section 8 voucher holders (See Chapter V). For high-performing PHAs who are not experiencing higher average tenant income levels, there should be a pool of funds available to them to do affordable housing development. This could be like a recreation of the development fund for high-performing PHAs. Also, if tenant employment levels were to decrease for a PHA in the program, they could use these fund as well. Further, the additional funding can be used to help PHAs set up their MTW programs. If these new provisions are implemented, other high-performing PHAs can gain the development capacity they need to start addressing their local housing issues.

Along with the provisions under expanded MTW program, HUD also needs to expedite or eliminate its lengthy process to procure property so that high-performing PHAs can use this development capacity to acquire property. These PHAs would still keep or create their nonprofit affiliates because of the other funding benefit they provide. With the nonprofit the PHA can attract additional funding under CDBG and HOME Programs, along with other funding for affordable housing from corporations and foundations. A PHA should have access to all the resources that are available for affordable housing development.

To increase the number of financial resources available to PHAs and other affordable housing providers, Congress should also encourage state and municipal government to play a larger role by either appropriating matching funds to municipal housing programs, or by providing technical assistance to localities. Massachusetts is one of a few states that have state-funded housing programs. At the state level, the Massachusetts Housing Finance Agency and the Department of Housing and Community Development both have programs that provide financial and programmatic assistance to local affordable housing providers. On the local level, the City of Cambridge has created an Affordable Housing Trust, which provides funding to these organizations. PHAs will be eligible for funding from all newly created programs. State and local governments may consider the following:

- Cities may consider charging a fee to those developers who do not include affordable units in their housing projects. For example, in some municipalities in New Jersey, developers are charged $20,000 per affordable housing unit if they decide not to build affordable units. They are required to have one affordable unit in every five units built. Thus, if a developer
builds five units, and wants them all to be market rate, he/she must pay the city $20,000. This amount could be more for areas like Cambridge were housing prices are higher. The money can then be used to rehab existing affordable units or fund new units. This would be helpful, considering the high rate of condominium conversions and new construction in the cities where housing prices have increased dramatically (Census 2000).

- Cities may also wish to create a fund that accounts for the shortfalls in the FMR estimations. Clearly, actual city rents may be far higher than the FMR estimates. This means that eligible Section 8 tenants still would not able to find housing in their city. Assessing a tax may be one option. Again, in New Jersey, as a part of the Mount Laurel settlement, a percentage of the transfer realty tax in the state is used for affordable housing development. With all the houses and condominiums being sold in many cities, the extra funds could be generated to help close the gap for Section 8 and other assisted housing funding, and to also purchase properties and/or help fund existing projects where some units can be designated as affordable.

If high-performing PHAs have access to these resources, they will be better able to help in addressing the current affordable housing shortage issue. This paper provides a model for how they can become more involved before it is too late. If the battle to house America’s poor is not fought on all fronts—using all of our capable resources and institutions—we are sure to lose it.
References


Henriquez, Sandra. 2001. Executive Director, Boston Housing Authority.


53


