



**Housing Policy Report
Council Finance Committee
January 28, 2020**

The Finance Committee had four extensive discussions about the Housing Policy proposed by the Amherst Municipal Affordable Housing Trust (AMAHT). In the Finance Committee's November 18 report to the Town Council, there was a brief report on the first two discussions October 22 and November 5, with a link to a more extensive summary of its initial discussion. It is at <https://www.amherstma.gov/DocumentCenter/View/49191/housing-policy-discussion-102219>. There was subsequent discussion on December 18, January 7, and January 28. On January 28 the Finance Committee reviewed this report to the Council and voted to submit it to the Council. The Committee vote was 5-0.

The Finance Committee includes 5 members of the Council and 3 resident members, all of whom are concerned about the affordability of housing, including affordable housing for people with low incomes and modest income working families, and the effect on the Town. The Committee recognizes that housing is a critical matter nationally, statewide, regionally, and in Amherst. We appreciate the effort of the AMAHT to study this issue and provide an informative report for the Council, Planning Board, Community Preservation Act Committee, and the entire community with its proposed policy.

The policy proposed by the AMAHT was referred to the Community Resources and Finance Committees. The Finance Committee referral was to consider the costs to achieve the proposed goals and report to the Council about its findings. As we discuss below, those costs will depend upon the strategies used to create more affordable housing and the flexibility that is incorporated in the final policy. Amherst is facing many challenges and has ambitious expectations. The creation of more affordable housing is one of those challenges. The Council may need to adopt and prioritize them in an effort to meet our expectations and assure that the strategies are financially sound and minimize tax burdens on current low and moderate income Amherst residents.

The AMAHT proposed policy

The draft policy is an important beginning for the development of an affordable housing policy. These sections of the 6-12-19 "Proposed Amherst Affordable Housing Priorities Policy" are the most essential for financial analysis:

1. We can't just wait patiently for developers to come forward with ideas that fit our vision for the Town. We have to articulate that vision and then act proactively to see it implemented. (from Introduction, page 1)
2. Because it produces the largest number of units most efficiently, rental housing for individuals and families should represent over 85 percent of all expenditures for new affordable housing with less than 15 percent for other housing initiatives, including affordable homeownership. (from Funding Priorities, page 2)

3. Where preservation of existing affordable housing is proposed, that should take precedence over new development. (from Funding Priorities, page 2)
4. Develop 250 Units for households earning less than 80% AMI in the next 5-10 years with the first priority to be the development of new residential units that will qualify for the State's Subsidized Housing Inventory. (from Defining Affordable Housing and Unit Goals, page 2)
5. Develop 100 Units at 80-100% AMI. (from Funding Priorities, page 3)
6. Developing 250 new affordable units with an average Town subsidy of \$50,000 per affordable unit would require a total of \$12,500,000. (from Projected Local Subsidy Costs, pages 3-4).

The Finance Committee has some questions about these goals:

1. Are we correct to assume that goal #1 is suggesting two strategies – we will take advantage of initiatives that come from developers and the Town will take proactive steps? There are proposed developments that will include affordable rental housing units. (e.g., Aspen Heights on Northampton Road)
2. What proactive steps would be required to facilitate the development of new housing if the town does not wait for a developer to propose a project? Does the Town act fully as a developer? Does it seek a location to attract a developer, as is being done for the East Street School property? Does the Town create a financing plan? All of these steps require public funds as well as staff time and expertise that may not be available without retaining outside expertise at cost.
3. Goals #4 and #5 are specific to the number of units of housing to add. What is the baseline, the beginning date to measure the addition of housing units? Will it include our recent additions to affordable housing and those that are in process?
4. If housing units are preserved as suggested by goal #3, are they counted as developed units under goal 4 or 5? It would seem that they should be counted. If Rolling Green had been sold to a buyer to rent solely as market rate rental housing, no units would have been preserved and the Town would have lost affordable housing units. Without the rehabilitation of its apartments, the Amherst Housing Authority may not have been able to continue to make those units available. If this is not clarified, the cost to achieve goal #3 is additional to the cost of achieving goals 4 and 5.

Previous Amherst experience

Amherst has been successful in developing affordable housing. According to the Department of Housing and Community Development Chapter 40B Subsidized Housing Inventory (SHI) as of September 14, 2017, Amherst had 1,083 subsidized units, which is 11.3% of the 2010 Census of Year Round Housing Units. The statewide average is 9.7%.

Approximately one-quarter of the rental housing that meet this standard was created since 1990 by substantial Town commitment of staff, boards and committees, and investment of public funds. The committee considered a January 2017 report from the Planning Department about successful prior efforts to create or preserve affordable housing with Town financial assistance. The report from the Planning Department is appended to this committee report. To analyze costs for the town, the committee supplemented that report to add the 26 affordable units at the North Square at the Mill District and the \$2,795,009 tax incentive the Town provided as financial assistance (reduction of property tax for 10 years).

There are 22 projects since 1990 that received Town financial assistance. That assistance was from the Community Preservation Act, the Community Development Block Grant, tax incentives, contribution or town land or cost reduction at sale, and the estimated value of density bonuses pursuant to the Inclusionary Zoning provisions of the Zoning Bylaw. These projects created, preserved, or renovated 240 units of rental housing. In the last 10 years there were 16 projects that created, preserved or renovated 205 units. The total Town contribution for all projects was \$10,082,757. The average Town contribution per unit was \$42,011. Because costs have increased, the committee added an annual inflation factor of 3% to reflect current costs. The adjusted cost per rental unit was \$52,754, which is close to the AMAHT estimate of \$50,000 per unit for Town subsidy. However, two additional factors should be considered. (1) The proposed policy sets forth future goals and costs will continue to increase. (2) The Town contribution for the previous efforts does not include the cost of staff time, including the time of the Town attorney. Many of the successful projects were not initiated by the Town, though they received support from Town staff.

We also must consider that the largest source of Town direct financial assistance for housing initiatives is from the Community Preservation Act. CPA funds more than housing. It also assists with conservation, recreation, and historic preservation projects. The Council FY21 Budget Policy Guidelines adopted on December 16, 2019 provide that where permissible, CPA funds should be considered to assist with the expenses of capital building projects, such as the CPA historic preservation funds used for a portion of the Town Hall renovation. In 2019, CPA funds for allocation in FY 20 totaled \$2,841,988. \$421,483 was needed to retire debt issued on previous CPA projects that were not funded in a single year. That included \$152,400 to preserve affordable housing at Rolling Green Apartments, \$52,625 to acquire the Hawthorne property that includes the land for Habitat Housing, \$12,100 for the Ann Whalen Apartments unit preservation, and \$36,400 for another Housing Authority project. Upon the first round of recommendations from the CPA Committee, the Town Council authorized \$2,161,505 in expenditures, including \$500,000 bonding for one project (Valley CDC Studio Supportive Housing). In December, the Council approved an additional CPA expenditure of \$259,000 for the Kendrick Park playground to be funded by borrowing.

Past development has at times also succeeded in pulling state housing resources into Amherst to construct and later support rent subsidies. In the future, it would be useful to track such resources to create a history file to accompany expenditures of Town resources.

As noted, the AMAHT suggested policy specifies that at least 85 percent of expenditures for new affordable housing be rental units. There have been CPA grants that create affordable home ownership opportunities. That includes Habitat for Humanity projects and a 2017 Valley CDC First Time Homebuyer Program that assisted four qualified buyers to receive deferred payment loans.

Planning Department

Planning Director Chris Brestrup met with the committee on January 7. She began by reminding the committee that the Planning Department is very supportive of creating more affordable housing and commits significant time to writing grant applications, supporting the CDBG and CPA programs, and monitoring programs once built, in addition to its role in permitting. Ms. Brestrup emphasized the two major types of affordable housing projects, those initiated by the town and projects initiated by developers where the developer is required to

include affordable units. Recent developer-initiated projects include Presidential Apartments, 70 University Drive, Aspen Heights, and North Square. Town-initiated efforts include Olympia Oaks, Rolling Green, the East Street School, and CPA-funded projects such as the Amherst Housing Authority renovations. For developer-initiated projects, staff must enforce inclusionary zoning requirements, assure that the developer knows what they need to do, and assist them to rent the units.

Ms. Brestrup provided this description of the effort to develop Olympia Oaks, “Olympia Oaks – a town initiated project from several years ago with 42 affordable units; town staff (Nate Malloy and Roy Rosenblatt) spent at least half of their time over the course of several months (perhaps stretching to years) working on this project; negotiations with UMass over the use of the road; seeking a developer; working with the developer on the plan for the project; reviewing architectural and engineering plans and assisting the developer in obtaining permits for the project; construction observation to make sure that things were being built correctly.”

She concluded her report by informing the Finance Committee that developing 50 affordable units per year is ambitious, whether developer or town-initiated, and will require a lot more Planning Department staff time. It may require hiring an additional staff person who would be devoted entirely to affordable housing issues.

Conclusions

Based upon extensive discussion, the Finance Committee reached the following conclusions:

1. The cost estimate for any proposed project should include all costs, including staff time.
2. The estimates should also include expected financial support from State and other housing grants.
3. The recommendation to not wait for developers to come forward with ideas that fit our vision for the Town and to act proactively will often increase expenses as Town staff and financial resources replace the initial efforts of developers. That can work, as we hope happens with the AMAHT initiative at the site of the former East Street School. However, it is unclear if it will always work.
4. The recommendation that preservation of existing affordable housing should take precedence over new development cannot be in addition to the goals to develop new units. Preservation efforts effectively increases affordable housing inventory. It is important that we preserve existing units or we will lose them and the total affordable housing inventory will decrease.
5. Establishing a numerical goal, such as developing 250 units for households earning less than 80% AMI in the next 5-10 years could have unintended consequences. Efforts to achieve the goal could draw on available resources (CPA, CDBG, TIF, use of Town-owned land) at a rate that is not practical or sustainable. Also, having an inflexible goal could encourage the development of less expensive projects in order to increase the number of units with available funds and compromise the quality of housing the Town helps to create. It could also lead to a preference for single person units because family housing (with several people) counts as one unit. Conversely, it could encourage decisions to build costly projects to meet a numeric goal.

6. The goal to create an additional 100 units of housing for occupants between 80% and 100% AMI is additional to the 250-unit goal. This would support housing for individuals and families who are Town employees, employees of local businesses, and others who cannot afford to live in Amherst and have incomes greater than 80% of AMI. There is no known cost. The Council would need to decide how much money the Town can invest in meeting this goal, while helping create more affordable housing.

7. Amherst also needs to take into consideration “affordability” for modest income families with incomes near but above 100% of AMI. Given the price of homes and the rents charged by new apartment buildings that do not have affordable units, teachers, firefighters, librarians, service workers, and other working families are at risk.

8. Amherst should prioritize strategies that are less dependent on town expenditures. This includes accessory units and allowing current residents to subdivide their homes.

9. A policy of preference for rental housing for individuals and families, to encompass at least 85 percent of all expenditures, will have consequences. It places little or no value on homeownership by lower income and middle-income, workforce residents. Additionally, the Planning Department calculation of Town Costs for Habitat housing costs does not recognize the “sweat equity” of volunteers and prospective occupants or the donation of materials.

10. Any policy should require close scrutiny of any proposed town-supported project to assure that the town-investment per unit is reasonable.

11. The Community Preservation Act is a unique resource and frequently the only resource to support critical community problems as they arise and are assessed annually by the CPA committee and then by the Council. Making any commitment of funds for a long period will diminish or eliminate the opportunity to consider other projects. Long-term commitments limit the availability of funds in succeeding years. The amount of debt incurred should be carefully considered.

12. The proposed policy does not specifically recommend approaches that will encourage private development of affordable housing through means such as zoning changes, e.g., inclusionary zoning, a 40R district, supplemental apartments, and auxiliary apartments.

13. The Finance Committee discussed other housing issues, but they are not part of the financial analysis of the proposed policy. They include the need to assess all populations that cannot afford housing in Amherst and the desire to create communities with a more comprehensive range of incomes

14. The production of new housing often generates more property tax revenue than was previously generated for the property. This can only be determined separately for each project. Similarly, some Town financial investment may generate substantial additional funds such as the DHCD funds Valley CDC seeks for the 132 Northampton Road project. The commitment of CPA funds for that project is contingent upon Valley CDC receiving that additional funding. Councils will need to consider those factors on a case-by-case basis as town funding is requested.

Recommendation

As the committee reviewed previous successful projects, it was evident that each one is unique. That will be the likely experience in implementing a new policy. Most town-initiated projects will require funding that will require Council approval. The Council will need to review

each one to determine whether it is a sound investment for the Town and whether resources are available. A policy can recognize that step and the importance of those decisions.

The committee also recommends that a policy provide for regular review, assessment, and amendment. The most difficult challenge is to establish goals. A goal can be too ambitious or too limited. The policy should explicitly include flexibility to amend or suspend goals as future circumstances warrant.

The Finance Committee appreciates the work of the Amherst Municipal Affordable Housing Trust to create the draft policy and bring it to the Council and to other boards and committees for consideration. The housing issue is complex. The final development and approval of a housing policy ought be a Council responsibility and priority. It should be referred to a Council Committee which can consider the reports of the Community Resources and Finance Committees to bring a revised draft to the Council for consideration.

Respectfully submitted,
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