

# **Preliminary Report to the Concord Select Board**

**October 29, 2018**

**Prepared by  
Affordable Housing Funding Committee**

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# Executive Summary

The Affordable Housing Funding Committee was appointed by the Select Board, per amended Article 49 at the 2017 Concord Annual Town Meeting, to recommend appropriate measures to fund the Town’s affordable housing goals. The Committee began its work on September 26, 2017.

## The need for affordable homes in Concord is clear

- The **wait for affordable rentals can exceed seven years** in Concord.
- There were **33 applicants to purchase one affordable home** at Millstone Concord<sup>1</sup> in 2016.
- Goal 3 of the 2015 Housing Production Plan is for the Town to “**encourage creation of affordable rental and ownership housing** for households with low-incomes, moderate, and middle-incomes throughout the community.”<sup>2</sup>

Concord is currently adding approximately 900-1,000 new homes every ten years. To keep 10% of its housing stock affordable, **Concord will need to produce 9-10 affordable homes each year**, or undertake a significantly sized project every five years.<sup>3</sup>

The Committee estimated an average cost to develop one unit of affordable housing in a multi-unit development at \$400,000 - \$500,000. The total amount of **new revenue needed each year to support 10 affordable homes would be \$4 - \$5 million.**<sup>4</sup>

Concord’s per unit contribution could be less than \$400,000 - \$500,000 with buy-downs of condos, accessory dwelling units, or if state, federal, or other funds could be utilized.

## Predictable, sustainable funding sources are best for affordable homes

Concord would benefit from predictable, sustainable funding sources so that funds are readily available when affordable home opportunities arise. Much of the development of affordable homes is opportunistic, occurring when a suitable property becomes available. Without the necessary funds to act quickly, many valuable opportunities are being missed.

## Recommended Funding Sources

Source	Potential Revenue	
	High	Low
Annual Budget Line Item	\$916,331	\$916,331
Building Permit Fee Surcharge	\$1,000,000	\$800,000
Local Real Estate Transfer Fee Surcharge	\$3,300,000	\$1,600,000
Payments in Lieu of Taxes (PILOT)	\$3,265,866	\$1,632,933

## Other Funding Options

Several additional funding options were also discussed and studied. However, these options would not provide a steady revenue source.

- Change Community Preservation Act rate or allocation
- Corporate donations
- Free Cash
- Local sales tax
- Payments in Lieu of Units (PILU)
- Reverse mortgage program
- DHDC State Low Income Housing Tax Credits
- Federal Low Income Housing Tax Credits
- Federal Home Loan Bank (FHLB) Affordable Housing grant program

## Related Recommendations

### Use of funds for affordable homes

- At least 75% of funds would support affordable homes for those earning 80% of Area Median Income (AMI), or below. These units will be listed on the Massachusetts Subsidized Housing Inventory (SHI), contributing to the state goal of 10% of housing stock deemed affordable.
- No more than 25% of funds would support affordable homes for those earning 80% to 110% of AMI. While still affordable, these units will not be on the SHI.

### Management of dedicated revenues for affordable homes

Concord has several options for a dedicated mechanism to hold funds for affordable homes. Out of the seven options explored (See Appendix C for the full list.), the Committee proposes one of the three following options:

- municipal affordable housing trust fund
- non-profit fund
- revolving fund

Whatever choice is made, the mechanism should have the **flexibility** for funds to be used in a timely manner to take advantage of new opportunities that may arise quickly. In addition, a **transparent, clearly defined process for dispersing these funds** should be an integral part of this process.

### Issuing bonds for affordable homes

Concord could issue bonds to secure funding for affordable homes, much as it does for other large capital projects. While bonding could provide funds quickly for a project, it is not recommended without an identified, predictable revenue source to pay off the bonds.

### Zoning changes to facilitate development of affordable homes

The 2018 Envision Concord Plan noted that “Concord, like many of the municipalities in the state, is zoned primarily for single-family residences, which constrains production of diverse housing options,” and called zoning a “major constraint” in developing more flexible housing, especially multi-family homes.<sup>5</sup>

There may be concerns that multi-family units would not ‘fit’ a town or would decrease the value of single-family homes. This is not the case in Concord, where the multi-family Concord Housing Authority’s Everett Gardens complex sits amid a neighborhood of \$1-2m+ homes.

Concord should review and revise zoning regulations to make it easier to develop both multi-unit market rate and affordable homes, including scattered duplex and accessory dwelling units. Compared to single-family homes, multi-unit homes often have:

- lower development costs
- lower infrastructure expense
- higher environmental sustainability
- less impact on school costs
- more tax revenue
- residents with fewer cars who drive less<sup>6</sup>

Changes to the Cluster Development and Planned Unit Development sections of the Zoning Bylaw, as well as new regulations on accessory dwelling units, are specific items that could result in more affordable homes.

# Recommended Funding Sources

## Annual Budget Line Item

### Current situation

Concord does not include funding for affordable homes in its annual town budget, nor does it present a special warrant article at each year's town meeting for this purpose.

Funds from a budget line item would be held in a designated fund for affordable homes.

### Potential new revenue for affordable homes

Each year, the Town could decide on an amount of funding for affordable homes that would allow it to meet its goals.

**Funding for Affordable Homes through 1% Annual Budget Line Item**

Fiscal Year	Revenue from Property Taxes	1% of Property Taxes for Affordable Homes
2019	\$91,633,145	\$916,331
2018	\$87,927,747	\$879,277
2017	\$84,683,448	\$846,834

The annual tax impact of a 1% increase in property tax to fund affordable homes would be \$124 for a single-family residence in Concord with an assessed value of \$838,900 (the median assessed home value in FY2018).

### Considerations

- If this is a consistent, recurring line item every year, it would be a predictable, sustainable option to fund affordable homes. However, Town Meeting could reduce or reject this item in some years, making it a less stable revenue source.
- Budget appropriations must be spent during the fiscal year and can't be held over to a subsequent year, unless the town uses a fund, such as an affordable housing trust fund, where monies allocated for affordable homes could be held until needed.
- this option would require raising property taxes, unless there were budget reductions in other areas of town government

### Process required for change

Town Manager would include a line item with the annual budget for Town Meeting approval.

## Building Permit Fee Surcharge

### Current situation

Concord's building permit application fees are based primarily on the value of the construction (renovation and new construction). The town charges a permit fee of \$12 per \$1,000 of construction value. There are additional plumbing, mechanical, and electrical fees.

In 2016, building permits were issued for a total construction value of \$84.7 million.

### What other communities do

The base building permit fees in nearby towns are similar to Concord's, varying from \$10 to \$15 per \$1,000 of construction value. As with Concord, plumbing, mechanical, and electrical fees are separate.

Some municipalities use revenues from building permit fee surcharges to fund affordable homes.

**Potential new revenue for affordable homes**

The Committee estimated that there would have been more than \$1m in new revenue from a building permit fee surcharge on permits issued in 2016 using this option.<sup>7</sup> This option calls for a sliding-scale fee structure for the surcharge, avoiding an undue burden on small projects. However, the sliding scale would result in more revenue than a flat rate for all surcharge fees.

This new fee structure would apply to all building permits, both residential and commercial. An exception would exist for the construction of or addition to deed-restricted affordable units that are at 110% AMI or below. Also, like the existing base permit fee, this surcharge would be based on the value of construction instead of on the size of the new living area.

The proposed surcharge rate would vary from \$9 to \$20 per \$1,000 of construction value. The table below illustrates the sliding scale of rates and project examples.

Building Permit Fee Surcharge		
Construction Value	Current Base Permit Fee: \$12/\$1,000*	Surcharge Rate and Fee
< \$50,000 <i>(example: \$20,000 new bathroom)</i>	\$240	\$9 per \$1,000 \$180
\$50,000 - \$100,000 <i>(example: \$100,000 kitchen/family addition)</i>	\$1,200	\$10 per \$1,000 \$1,000
\$100,001 - \$500,000 <i>(example: \$500,000 small new home)</i>	\$6,000	\$15 per \$1,000 \$7,500
>\$500,000 <i>(example: \$1,500,000 large new home)</i>	\$18,000	\$20 per \$1,000 \$30,000

*\*Excludes plumbing, electrical, mechanical fees*

**Process required for change**

Town Meeting would have to pass an article approving this funding mechanism. The Town would then request the Massachusetts Legislature to amend state laws to authorize Concord to charge a building permit fee surcharge, with revenues dedicated to fund affordable homes. Subsequent Town Meeting approval would be required.

## Local Real Estate Transfer Fee Surcharge

**Current situation**

Real estate transfer fees are imposed by 35+ states, as well as counties and municipalities when real property changes ownership

The proceeds are generally used to support ongoing operations and specific designated purposes, such as affordable homes or open space preservation.

Currently in Massachusetts, there is a statewide [transfer fee of \\$4.56 per \\$1,000](#) of the value of real property sold in every county (except Barnstable and Dukes Counties). This amounts to \$2,280 for a sale of \$500,000 and \$4,560 for a transaction of \$1m. The State receives the revenues from this fee.

**What other communities do**

State-to-state, there are wide variations in transfer fees. Each state sets its own rates and some states allow municipalities to establish a supplementary transfer fee, as Massachusetts has done in the case of Cape Cod, Martha’s Vineyard and Nantucket.

### Transfer Fees of New England States

State	Fee	Usually Paid By
Connecticut	.75% - 1.25% (most municipalities have additional fee of .25%; 18 towns charge an extra .5%)	Seller
Maine	.44%	½ seller; ½ buyer
Massachusetts	.456%	Seller
New Hampshire	1.5%	½ seller; ½ buyer
Rhode Island	.46%	Seller
Vermont	.5% to 1.45%	Buyer

Source: National Conference of State Legislatures <http://www.ncsl.org/research/fiscal-policy/real-estate-transfer-taxes.aspx>

#### Potential new revenue for affordable homes

The Committee estimated the potential revenue from a supplemental Concord transfer fee on the value of real estate property transfers (single family, condo, other [vacant land, commercial, etc.]) from 2012-2017.

#### Estimated Revenues for Concord if There Had Been a Supplemental Transfer Fee 2012-2017

Year	Value of Sold Properties*	Revenue from 1% Fee
2012	\$346.9m	\$3.5m
2013	\$348.1m	\$3.5m
2014	\$354.1m	\$3.5m
2015	\$339.5m	\$3.4m
2016	\$514.1m	\$5.1m
2017	\$329.6m	\$3.3m
6-year total	<b>\$2.2b</b>	<b>\$22.3m</b>

\* Source: The Warren Group

If the total value of sold properties stays steady or increases over the values of 2012-2017, a local transfer fee could gross approximately \$3m each year.

The net dollars available from a Concord transfer fee each year for affordable homes could be impacted by:

- associated staffing and administrative costs to collect the transfer fee
- exemptions for part of the property value. Some towns exempt the first few hundred thousand dollars of sale value; others offer exemptions for first-time home buyers, etc.
- a rise or fall in real estate values

#### Who pays?

The Committee recommends that any local transfer fee be paid by the property buyer. Regardless of who pays, Concord could determine the amount of the local fee that would be added to the state fee.

#### Estimated Total Transfer Fees with Supplemental Concord Fee

Property Sale Value	State Transfer Fee .456%	Total Fee with 1% Surcharge	Total Fee with .5% Surcharge
\$500,000	\$2,280	\$7,280	\$4,780
\$1,000,000	\$4,560	\$14,560	\$9,560
\$1,500,000	\$6,840	\$21,840	\$14,340

#### Process required for change

Town Meeting would have to pass an article requesting the Massachusetts Legislature to amend state laws to authorize Concord to charge a local transfer fee.

# Payments in Lieu of Taxes (PILOT)

## Current Situation

- Approximately 84% of the General Fund Budget is derived from property taxes.<sup>8</sup>
- No property taxes are collected on over 1,000 acres of land in town with a property value of \$228.5m.<sup>9</sup>
- This property is owned by five private institutions based in Concord and 1 based in Cambridge. The five Concord entities generate over \$320m in revenues annually.<sup>10</sup>
- The only two property tax exempt entities that make PILOT are the Concord Municipal Light Plant and the Concord Housing Authority.<sup>11</sup>
- The exemption of large amounts of land from property taxes is a double blow to promoting affordable homes – the land isn’t used for homes and property taxes aren’t paid on the land.
- Many residents and communities view the topic of PILOT as one of fairness. They believe it is not equitable that large, wealthy institutions consume land and town services, but don’t pay taxes to support the community in a manner on par with other property owners.
- Municipal governments in Massachusetts have used payments in lieu of taxes by for at least 90 years.<sup>12</sup>
- Massachusetts leads the nation in the collection of PILOT by municipalities. Over 80 municipalities in the Commonwealth collect PILOT.<sup>13</sup>

Concord issued a report on PILOT in 2003. The authors of the report, the PILOTS Working Group, sought Board of Selectman approval to hold discussions with exempt entities.<sup>12</sup>

## What other communities do

Massachusetts communities are some of the most progressive in the country in pursuing PILOT payments. Many have implemented policies or have agreements with exempt entities to collect PILOT.

**PILOT in Massachusetts**

Entity	Community	Annual Amount
Concord Housing Authority	Concord	\$20,000
Concord Municipal Light Plant	Concord	\$465,000
Phillips Academy	Andover	\$3 million <sup>1</sup>
Lahey Hospital & Medical Center	Burlington	\$550,000
North Shore Medical Center	Salem	\$125,000
New Horizons	Marlborough	\$80,000
Harvard University	Boston	\$2.3 million
Harvard University	Cambridge	\$1.3 million <sup>2</sup>

<sup>1</sup>The initial agreement is for over \$3,000,000 over 8 years

<sup>2</sup>Based on estimated first-year payments, which rise for inflation, plus other costs

Source: Concord Housing Authority, Concord Municipal Light Plant, Andover Townsman: January 2, 2014, Cities of Boston & Cambridge, Lahey Hospital & Medical Center North Shore Medical Center

## Potential New Revenue for Affordable Homes

Concord would gain more than \$3.2m in annual revenue if the six largest property tax exempt entities paid the tax they would owe as non-exempt properties.<sup>14</sup>



### What Concord Institutions Would Pay in Property Tax if Not Tax Exempt

Exempt Institution	100% of Tax
Middlesex School	\$1,005,128
Concord Academy	\$721,383
Fenn School	\$272,166
Nashoba Brooks School	\$176,692
Harvard College	\$610,890
Emerson Hospital	\$479,370
<b>Total</b>	<b>\$3,265,866</b>

### Revenues, Net Assets, and Endowments of Concord Exempt Entities

Exempt Institution	Total Revenue		Net Assets		Endowment	
		As % of 100% Property Tax		As % of 100% Property Tax		As % of 100% Property Tax
Middlesex	\$40,287,686	2.49%	\$249,998,199	0.40%	\$137,442,143	0.73%
Concord Academy	\$28,051,881	2.57%	\$109,112,093	0.66%	\$67,056,380	1.08%
Fenn	\$20,360,056	1.34%	\$48,852,067	0.56%	\$24,644,290	1.10%
Nashoba Brooks	\$11,712,695	1.51%	\$22,235,492	0.79%	\$14,500,311	1.22%
Emerson Hospital	\$220,155,824	0.22%	\$38,468,866	1.25%	NA	NA
<b>Totals / % Average</b>	<b>\$320,568,142</b>	<b>0.83%</b>	<b>\$468,666,717</b>	<b>0.57%</b>	<b>\$243,643,124</b>	<b>0.89%</b>

Source: IRS Form 990 (tax year 2015) for Middlesex, Concord Academy, Fenn, Nashoba Brooks, and Emerson Hospital

### Leadership Compensation at Concord Exempt Entities

	Head of School/CEO	CFO	COO
<b>Average</b>	\$647,848	\$300,956	\$289,313
<b>High</b>	\$1,069,213	\$491,644	\$585,978
<b>Low</b>	\$340,748	\$198,818	\$182,586

Conversations with town staff indicate that in response to past PILOT discussions, the schools cited certain non-financial contributions to Concord:

- Middlesex School makes sports facilities available to Concord Recreation
- Concord Academy gym is available to Concord Recreation. The school made improvements in front of the school on Main Street.
- Nashoba Brooks makes facilities available for community use.
- Fenn and Nashoba both said that they educate more than 100 Concord students, alleviating the need to raise taxes to educate those students.

### Annual Contributions by Private Schools to Concord over the Past 10 Years

Exempt Institution	Annual Contribution	Contribution as % of 100% Property Tax	Contribution as % of Endowment	Contribution as % of Revenue	Expected Future Contributions (2018 on)
Middlesex	\$45,000	4.48%	.033%	.11%	\$45,000 / year for 5 years
Concord Academy	\$4,000	.055%	.006%	.01%	\$0
Fenn	\$0	0%	0%	0%	\$0
Nashoba Brooks	\$0	0%	0%	0%	\$0

Source: Concord Town Staff

## Considerations

- Previously, non-profit educational institutions in Concord were concerned that PILOT would benefit Concord Public Schools and would therefore be supporting their competitors. To remove any concerns about this, all PILOT would be designated to fund only affordable homes.

## Process Required for Change

The Select Board would establish a PILOT policy or individual agreements with each entity.

# What is Affordable Housing in Concord?

## Federal and state determinations of affordable housing

Federal and state agencies use a percentage of Area Median Income (AMI) and household size to determine eligibility for housing assistance. The AMI varies across the country; Concord falls within the income levels established for the Boston-Cambridge-Quincy Metropolitan Statistical Area (MSA).

**Area Median Income (AMI)**  
**Boston-Cambridge-Quincy, MA-NH HUD Metro Fair Market Rent (FMR) Area**

Household Size	AMI
1	\$75,500
2	\$86,300
3	\$97,100
4	\$107,800
5	\$116,500
6	\$125,100

Source: HUD 2018

The term “Moderate” as it applies to affordable housing or income varies depending on the funding program or agency.

**HUD Income Limits 2018**  
**Boston-Cambridge-Quincy, MA-NH HUD Metro Fair Market Rent (FMR) Area**

Household Size	30% AMI Extremely-low	50% AMI Very-low	80% AMI Low Income	115% AMI Moderate
1	\$22,650	\$37,750	\$56,800	\$86,825
2	\$25,890	\$43,150	\$64,900	\$99,245
3	\$29,130	\$48,550	\$73,000	\$111,665
4	\$32,340	\$53,900	\$81,100	\$123,970
5	\$34,950	\$58,250	\$87,600	\$133,975
6	\$37,530	\$62,550	\$94,100	\$143,865

Source: HUD 2018

In [Concord's Zoning Bylaw](#), the Planned Residential Development (PRD) section refers to “low-income dwelling units” and “affordable dwelling units”.

- Low-income dwelling units are those that can be counted in the State’s Subsidized Housing Inventory (SHI).
- Affordable dwelling units are those that are made available for sale or rent at below-market rates as “starter-priced housing” (units set aside for households with less than 110% of the median family income) or “moderate-priced housing” (units available to households with incomes of less than 150% of the median family income).

This provision was added to address the increasing price gap between market rate housing and housing available as low-income dwelling units.

### Concord Income Limits

Household Size	110% AMI Starter-priced Housing	150% AMI Moderate-priced Housing
1	\$83,050	\$113,250
2	\$94,930	\$129,450
3	\$106,810	\$145,650
4	\$118,580	\$161,700
5	\$128,150	\$174,750
6	\$137,610	\$187,650

Source: Concord Planning Division

In Concord, owned affordable homes at Elm Brook, off Virginia Road, are at 110% and 140% AMI, while those at the Black Birch Phase 1 development on Forest Ridge Road are at 120% and 140% AMI. Renters of Concord Housing Authority homes qualify with a maximum income of 80% AMI.

#### Are the disappearing small ranch homes ‘affordable’?

There is another type of home in Concord that is not addressed by the state and federal income limits – the small (less than 2,000 square feet) ranches, capes, and cottages built in the 40s, 50s and 60s. Many in Concord refer to these as ‘affordable’, even though the determining factor in affordability is guided by Area Median Income levels.

A few years ago, these homes could be purchased for less than \$500,000; this provided young families, singles, and seniors with a way to own a home in Concord.

Dozens of these homes have been demolished in the past 10 years, replaced by much larger (3,500 + square feet) new homes that sell for \$1.3+m. It is believed that this trend will contribute to changes in the character, sense of community, economic vitality, and demographics of the town.

A goal of the Housing Production Plan is to “Encourage the preservation of existing smaller homes and the construction of new smaller homes, especially as permanently affordable homes for low-income families.”<sup>2</sup>

Residents express a desire to preserve these smaller homes so seniors can downsize in Concord and young families or singles can live in Concord, as well as avoiding the creation of a homogeneous community of “McMansions”.

There are few single-family homes available for less than \$500,000. The cost of small homes today is usually \$600,000+. (The Area Median Income for a family of 4 is \$ 107,800. This income can support a home price of approximately \$400,000. The median income in Concord is \$139,000. This income can support a home price just below \$500,000.)

It would be reasonable to estimate \$600,000 to purchase a property and \$80,000 for closing costs, repairs/renovations, administrative and management costs. A household earning 80% of AMI would pay \$240,000 for the home, resulting in the need for other funding for a minimum of \$440,000.

## The Demand for Affordable Homes in Concord

- In January 2018, there were 143 applicants (20 with local preference) on the wait list for senior/disabled rental housing in Concord. The estimated wait for these 20 people was two to three years. The wait time for family rental units at Concord Housing Authority is six to seven years.<sup>15</sup>
- The median sale price of a Concord home in 2017 was \$1,025,000. This requires a household income of \$234,765 to remain within 30% of gross income allocated to housing cost. The price of a home that a median-income household (\$138,661) could afford in 2017 was \$509,000.<sup>16</sup> In 2017, there was one single-family home and 23 condos sold in Concord below this price.<sup>17</sup>

- For renters, an affordable 2-bedroom unit is \$1,504. However, the median monthly market rate rent for Concord apartments is \$3,475.<sup>18</sup>
- There are just over 12,000 employees working at 970 businesses in Concord. The average annual income of individuals working in Concord is \$71,656.<sup>19</sup>
- Nearly one third of Concord’s 6,735 households spend more than 30% of their gross income on housing.<sup>20</sup>

Concord’s 2015 Housing Production Plan outlined the challenges of developing affordable homes. “High land prices contribute to ever-increasing housing costs, which make the Town unaffordable to many who currently reside in the community, as well as those who would like to move into the community.”<sup>2</sup>

The high cost of housing in Concord prevents many from renting or purchasing a market-rate home in town. These include:

- young adults who grew up in Concord
- singles, with one income
- town employees
- employees of Concord businesses
- seniors/disabled on fixed incomes

### **Concord’s current affordable home inventory**

As of April 2018, Concord has 10.52% (721 units) of its housing stock listed on the State’s Subsidized Housing Inventory (SHI) as affordable. However, this overstates the actual number of truly affordable units. There are 357 units of market rate rental units included in the list because the State counts all units in a project as affordable when it is a rental project and approved under MGL 40B. Accounting for these market rate units, 5.4% of Concord homes are affordable.<sup>21</sup>

### **How affordable homes help communities**

For Concord and many small towns in Massachusetts, the availability of affordable homes makes the difference between a vibrant local economy or vacant storefronts in town centers.

Retail shop workers, restaurant wait staff, home health aides, public works employees, hospital hourly wage earners, farm workers, home services employees and other low wage earners aren’t incentivized to drive through several other towns, past scores of similar businesses, to work in Concord for the same wages that they could find a few miles from where they can afford to live.

The lack of affordable homes makes it hard for businesses to find and keep employees. This forces businesses to move closer to where employees can afford homes. This situation will jeopardize the future economic health of Concord.

### **The 10% State requirement and 40B**

In addition to the need for affordable homes to support the economic vitality of the town, all Massachusetts cities and towns are expected to meet state affordable housing goals, referred to commonly as 40B.

The State requires all cities and towns to have 10% of their housing stock qualify for the Subsidized Housing Inventory (SHI). If towns don’t meet this requirement, developers can override local zoning laws.

Concord currently meets the 10% state requirement, but as more market rate homes are built each year, it will be necessary for the town to increase the supply of affordable homes to stay at or above the 10% level.

# Why Predictable, Sustainable Funding for Affordable Homes is Necessary

It is challenging to plan for affordable homes in Concord because of the lack of readily available land and the high cost of land. The development of new affordable homes usually happens when a suitable property becomes available or when a developer proposes a building project involving several units, with some to be affordable. Unfortunately, the opportunities for new affordable homes usually occur suddenly and randomly.

Because opportunities for new affordable homes arise infrequently, funds must be readily available. This requires a predictable, sustainable source of funds. Otherwise, it could take months for a Town Meeting vote to approve funds. By then, the opportunity may have been lost.

## **No Predictable, Sustainable Funds for Affordable Homes**

Concord does not dedicate any annual funding to support affordable homes, except for the 10% of Community Preservation Act (CPA) funds that the state requires to be allocated toward affordable homes. For Concord, 10% of the annual CPA funds are approximately \$135,000. In the past, the Community Preservation Committee has allocated more than the required 10% per year for affordable homes. However, with many other projects competing for CPA funding each year, a guarantee of only \$135,000 per year (and sometimes higher CPA funding) won't get Concord to its long-term goal to sustain the creation of affordable homes.

# Resources

## Executive Summary

- 1 Millstone Concord, 1888 Main Street, West Concord
- 2 Planning Division, Town of Concord, 2015 Housing Production Plan  
<https://www.concordma.gov/DocumentCenter/View/1447/2015-Concord-Housing-Production-Plan-PDF>
- 3 Planning Division, Town of Concord
- 4 Lynn Jolicoeur, WBUR News, *Boston Ups Its Target For New Housing Creation To Keep Pace With Population Growth*, September 26, 2018 <http://www.wbur.org/news/2018/09/26/boston-target-housing-creation>
- Cameron Sperance, BISNOW, *High Construction Costs Birth New Hot Spots, Kill Workforce Housing*, August 8 2017  
<https://www.bisnow.com/boston/news/multifamily/high-construction-costs-birth-new-neighborhoods-drive-spike-in-workforce-housing-77510>
- 5 Envision Concord Plan, July 30, 2018, page 15 <http://www.concordnet.org/DocumentCenter/View/15250/Final-Envision-Concord-Plan-7-30-18-Full-Version-79MB>
- 6 Overcoming Opposition to Multifamily Rental Housing, Joint Center for Housing Studies, Harvard University

## Recommended Funding Sources

### *Building Permit Fee Surcharge*

- 7 The Committee can make available worksheets showing the calculations used to estimate the potential revenue of surcharge rates on the 113 residential properties with 2016 building permits.

## PILOT

- 8 Concord Town Budget
- 9 Assessing Department, Town of Concord
- 10 Data collected from individual IRS filings for each entity.
- 11 Assessing Department, Town of Concord
- 12 Payments in Lieu of Taxes Working Group – Preliminary Report, Submitted to Concord Select Board, January 30, 2003
- 13 Kenyon, Daphne A., and Langley, Adam H., Tax Analysts Special Report, *Payments in Lieu of Taxes By Nonprofits: Case Studies*, July 18, 2011
- 14 Assessing Department, Town of Concord

### *What is Affordable Housing in Concord*

- 2 Planning Division, Town of Concord, 2015 Housing Production Plan

## The Demand for Affordable Homes in Concord

- 15 Concord Housing Authority
- 16 Planning Division, Town of Concord. Median income affordable home price calculated using standard DHCD calculator and assuming a 10% down payment; Median income – 2012-2016 American Community Survey; Current median sales price – Warren Group Town Stats; Income necessary for median price calculated using standard DHCD calculator and assuming a 20% down payment
- 17 Assessing Department, Town of Concord
- 18 Planning Division, Town of Concord. Trulia.com (data from 7/24/17-8/24/17); 2017 LIP rent for a 2bd unit minus the Town of Concord utility allowance.
- 19 Planning Division, Town of Concord. 2016 data from the Mass Department of Labor and Workforce Development ([http://lmi2.detma.org/lmi/lmi\\_town.asp](http://lmi2.detma.org/lmi/lmi_town.asp))
- 20 Planning Division. Town of Concord. HUD Comprehensive Housing Affordability Strategy (CHAS) 2010-2014
- 21 Regional Housing Services Office Housing Inventory – Concord <https://www.rhsohousing.org/node/76/housing-inventory>

# Appendix A: Other Funding Sources

## Change Community Preservation Act Rate and/or Allocation

### Current situation

Concord levies a surcharge of 1.5% on annual property taxes through the State’s [Community Preservation Act](#) (CPA). The state legislation allows this surcharge to be up to 3% of taxes. The state provides some matching funds. In 2015, the state match was 29.7%; in 2016, it was 20.6%. These state funds will continue to decrease as more communities adopt the CPA.

Each year, a minimum of 10% of the funds collected must be dedicated to each of three categories: affordable homes, historic preservation and open space. The remaining 70% of funds can be dedicated to any of these three categories or to recreation projects.

Concord’s Community Preservation Committee receives and approves proposals each year, allocating the 30% funding as required and also funding other projects important to the Town. Town Meeting subsequently votes on the Committee’s recommendations.

The CPA has funded affordable home projects in the past above the 10% per year minimum requirement. The Community Preservation Committee recommendation for affordable homes was 26% of the total 2018 funds. Concord is funding the proposed Junction Village affordable assisted living facility with a total of \$1m in CPA funds over three years of funding, a level substantially over the required 10% per year. The largest CPA appropriation before this was \$1,371,000 for the Peter Bulkeley project.

### What other communities do

**CPA Rates in Nearby Communities**

Acton	Bedford	Concord	Lexington	Sudbury	Weston
1.5%	3%	1.5%	3%	3%	3%

Source: [CPA Adoption Votes – Current CPA Communities, Community Preservation Coalition](#).

### Potential new revenue for affordable homes

There are two ways to increase CPA funds for affordable homes:

- raise the levy rate from 1.5% to 3% and use the increase to fund affordable homes
- raise the required minimum for affordable homes from 10% to 25% or 50%

This strategy for holding and distributing the new revenue for affordable homes would use the existing CPC structure of proposal review and Town Meeting approval of funding.

Raising the CPA rate from 1.5% to 3% would result in a property tax increase. The annual tax impact of a 1.5% increase in property tax to fund affordable homes would be \$186 for a single-family residence in Concord with an assessed value of \$838,900 (the median assessed home value in FY2018).

**Estimated Revenues for Affordable Homes by Changing CPA Formulas**

	2017 Revenue at 1.5%	2017 Revenue at 3%
<b>Total Revenue</b>	\$1,357,376	\$2,714,752
<b>10% to Affordable Homes</b>	\$135,738	\$271,475
<b>25% to Affordable Homes</b>	\$339,344	\$678,688
<b>50% to Affordable Homes</b>	\$678,688	\$1,357,376

### **Process required for change**

Town Meeting would first have to pass an article approving a change in rate and/or allocation.

- Increasing CPA from 1.5% to as much as 3% would require Town Meeting and ballot approval.
- Changing the required allocation of CPA funds (i.e. 50% for affordable homes) would require a new policy by the Community Preservation Committee.

## **Corporate Donations**

### **Current situation**

The lack of affordable homes in high cost housing markets like Concord can prevent local businesses from attracting and retaining talent.

With corporate tax rates recently reduced from 35% to 21%, it has been suggested that some companies may be more willing to make charitable contributions, especially to support the economic stability of the towns where they are located. Development of new affordable homes could be a potential beneficiary of expanded corporate contributions.

Just over 1,900 companies with Concord addresses are registered with the State. However, there are few immediately identifiable businesses of a size that would be expected to have donations programs where tens or hundreds of thousands of dollars are contributed to worthy causes, so an extensive fundraising campaign would be necessary to identify and solicit enough businesses with the resources to donate.

Previously, many companies invested in affordable homes through tax credits to reduce their tax liability. The 2018 decrease in the federal corporate tax rate means that companies may no longer have an incentive to invest in tax credits for affordable homes to reduce their tax liability.

### **Potential new revenue for affordable homes**

It is not possible today to estimate an amount that could be raised from corporate donations because of the large amount of small, private businesses in Concord. The Town would have to thoroughly research the public and private companies in town, and plan and execute an annual fundraising campaign, asking companies to contribute a portion of their tax savings to affordable homes in Concord.

### **Process required for change**

- Dedicated, professional fundraising resources to mount annual fundraising campaign with businesses. This could be hired Town fundraising staff or outsourced to a company that executes fundraising campaigns. The average 2018 salary for a fundraising coordinator in the US was \$68,360.<sup>1</sup>
- A town policy outlining the use of corporate funds to support affordable homes would be needed. This policy would provide a framework that corporations could reference for their Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) initiatives.

## **Free Cash**

### **Current situation**

- Free Cash is comprised of surplus funds held in reserve for town use. Existing town policy stipulates Free Cash to be between 5% and 10% of the General Fund Budget. Over the past several years, Free Cash exceeded this range and averaged 12%.
- Concord's Financial Policies state that if Free Cash rises above 10%, the Town Manager can use the excess Free Cash for a special non-recurring expenditure or for the General Fund Stabilization Fund. Town revenues for 2017 totaled \$110m. Free cash was 10% (\$11m).
- Moody's Investor Services rates Concord's debt as Aaa. They state, "The town continues to abide by sound fiscal management policies which include the maintenance of free cash of at least 5% of the total budget, ..."



### **What other communities do**

Brookline's Free Cash Policy allocates Free Cash to their Affordable Housing Trust Fund. The policy states, "Affordable Housing Trust Fund (AHTF) – in order to support the Town's efforts toward creating and maintaining affordable housing, 15% of remaining Free Cash shall be appropriated into the AHTF if the unreserved fund balance in the AHTF, as calculated in the Town's financial system, is less than \$5m."

### **Potential revenue for affordable homes**

Revenue for affordable homes would be generated by slightly changing the free cash policy so free cash between 8% and 10% (\$2.3m using 2017 numbers)) would go to affordable homes. Free Cash between 7% and 8% (not to exceed \$1m) would go to reduce the next year's tax levy. While 7% (\$7.7m) stays in Free Cash. This allocation maintains free cash in excess of the 5% level stated by the bond rating agency.

### **Considerations**

The funds in Free Cash are surplus property taxes already paid by residents. When this surplus exceeds the stated range, as it does now, the Town should use these funds to support affordable homes.

### **Process required for change**

Amend the Town's Financial Policies. The Select Board must approve the policy changes

## **Local Sales Tax**

### **Current situation**

Concord currently has a local meals tax and a local hotel/motel tax, which generate \$350K and \$550K in respectively per year.

While a local sales tax could be a stable and predictable revenue source, Massachusetts law prohibits cities and counties from levying their own sales tax.

## **Payments in Lieu of Units (PILU)**

### **Current situation**

Concord does not have a PILU policy, nor have there been any instances of PILU in the past.

There was a recent proposal for the Black Birch Phase II developer to give \$1m to Concord for affordable housing purposes in lieu of building two affordable units. Due to a change in state policy, these units would not meet current state definitions for the Subsidized Housing Inventory (SHI). However, that proposal failed at the October 1, 2018 Special Town Meeting and at last year's town meeting. As a result, the two units are expected to be built as non-family 80% AMI affordable units, even if they will not be added to the town's SHI.

Past PILU have not been sufficient to fully fund the same number of affordable homes elsewhere. In addition, with land acquisition so expensive and unpredictable, the wait for a location to build homes with the PILU could be years. Requiring a developer to build the number of affordable units in their approved development as per the town-approved plan would increase the number of Concord's affordable homes much faster.

While it may be better to have developers build affordable units with their projects, in some cases, if the PILU payment is high enough to build units elsewhere and there are already identified land/opportunities, a PILU policy could be useful. The policy would have to clearly set limits on the minimum amount for a PILU and the circumstances when it could be used.

## Considerations

Two issues need further consideration by the Town with regard to PILU:

- Residential Cluster Developments and Planned Residential Developments, both of which require a special permit process, would need to have stronger requirements for affordable homes, and especially homes at the “starter home” level or below.
- It should be noted that many affordable housing advocates do not favor PILU, for reasons of timing, cost, and efficiency. Having units constructed as part of a market-priced development is the easiest way to acquire land for affordable homes, the fastest way to build affordable units and the most cost effective in terms of construction. Additionally, it integrates affordable housing across the community.

### Potential new revenue for affordable homes

Because revenues to the town would only result from a specific housing development, and these cannot be predicted in advance, there is no way to determine an annual amount that could be realized from PILU.

### Process required for change

Concord would need a much stronger approach to PILU and a willingness to more strongly negotiate and advocate for affordable homes. Town Meeting would also need to approve a bylaw change to require more affordable units as part of specially permitted projects.

## Reverse Mortgage Program

### Current situation

This topic emerged at the public hearing held by the Finance Committee Fiscal Sustainability Subcommittee on February 5, 2018, when a few residents expressed a desire for reverse mortgage options as an alternative to means-based property tax relief.

Providing information to help residents understand how reverse mortgages work and how to evaluate reverse mortgage providers could fit in with other expert lectures on topics of interest to seniors sponsored by the Council on Aging.

It has also been suggested that a reverse mortgage program could be a potential revenue source for the Town, with Concord partnering with reverse mortgage providers to help residents, who then might be convinced to leave part or all of their estate to the Town, with these funds to be used for affordable homes.

### Potential new revenue for affordable homes

This is a very broad topic that most likely falls into the category of occasional personal estate donation rather than a stable revenue source for the Town. The Committee did not study it in detail.

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1 Salary.com <https://www1.salary.com/Fundraising-Coordinator-Salary.html>

2 Town of Brookline FY2016 Program Budget – Fiscal Policies – Reserves; Appendix, page 7

## Appendix B: Options for Dedicated Housing Funds

Description	Authority	Consideration
Municipal Affordable Housing Trust	MGL C 44 §.55C  Town Meeting creation by adoption of MGL, can tailor powers to suit Concord	<ul style="list-style-type: none"> <li>• Special purpose Trust aligns directly with intent of funding.</li> <li>• Town entity, and accounting and financial reporting.</li> <li>• Complexities of creating a Trust (Declaration of Trust, organizational by-laws; nominating Trustees)</li> <li>• Requires Trustees to make funding decisions and allocations</li> <li>• Duplicative with CHDC</li> </ul>
Revolving Fund	MGL C 44, Sec 53E ½  Town Meeting establishment and annual authorization for maximum expenditure	<ul style="list-style-type: none"> <li>• Segregated from general fund, earmarked for specified purpose</li> <li>• Does not require creating a new entity (Trust, corporation)</li> <li>• Funding approval/expenditure determined by authorizing body.</li> </ul>
Non-Profit	Select Board to define approval and eligible uses for the funds	<ul style="list-style-type: none"> <li>• Transfer funds to Concord Housing Authority and/or Concord Housing Development Corporation</li> <li>• CHA/CHDC established for these purposes</li> <li>• SB may require annual reporting</li> </ul>
CPA Fund	MGL C 44B, S 3.b (1/2), S 7	<ul style="list-style-type: none"> <li>• CPA allows for additional funds to be deposited into the CPA account</li> <li>• CPA appropriation process.</li> <li>• Use restricted to CPA allowable uses (i.e. only for &lt;100% AMI)</li> <li>• Total funds shall not exceed 3 per cent of real estate tax levy.</li> </ul>
Gift Fund	M.G.L. C 44 Sec 53A  No appropriation, Select Board approval	<ul style="list-style-type: none"> <li>• Funds must be gift/donation</li> </ul>
Enterprise Funds	MGL C 44, Sec 53F ½	<ul style="list-style-type: none"> <li>• Establishes a mechanism for separate accounting and financial reporting.</li> <li>• Generally not used to hold and allocate housing funds. Typically for fees charged in exchange for providing goods or services.</li> <li>• Fund oversight by outside board.</li> </ul>
Stabilization Fund	MGL C 40: Sec 5B  Town Meeting approval	<ul style="list-style-type: none"> <li>• Segregated from general fund, earmarked for specified purpose</li> <li>• Does not require creating a new entity (Trust, corporation)</li> <li>• Town may dedicate particular receipt to fund</li> <li>• Requires 2/3 vote at TM for initial set-up and for any appropriations</li> </ul>

Source: Regional Housing Services Office, September 2018

# Appendix C: Committee information

## Committee Members

- Ray Andrews
- Todd Benjamin, Chair
- Vince Carlson
- Holly Darzen, Clerk
- Sue Myers
  
- *Former Committee Members*
- Ruth Bennett
- Elisabeth Elden

## Committee charge and process

Per amended Article 49 at the 2017 Town of Concord Annual Meeting, the Select Board was directed to appoint a committee to study the affordable housing goals of the Town and recommend appropriate measures to fund those goals. The Town of Concord currently has a Housing Production Plan which is submitted to the Select Board for approval and certification every 5 years. The Housing Production Plan set goals and recommended initiatives on how to achieve them. Even with the Town's efforts to obtain funding from CPA funds and various State and Federal grants as well as contributions from private development projects, the goals of the Housing Plan have not been met. The Affordable Housing Funding Committee shall provide recommendations that provide the funding to effectively meet the Town's Housing Production goals each year.

## *Duties and responsibilities*

- To meet regularly and to elect a chair and clerk.
- To focus solely on funding options to support the annual goals of the Town of Concord's 2015 Housing Production Plan.
- Gather information and research on various funding mechanisms that will support and sustain Concord's community housing goals, including, but not limited to the following: CPA funds, the issuance of municipal debt, an annual appropriation from the General Fund and the use of fees or surcharge to building permit applications or property taxes.

## How the research was done

From the Committee's first meeting on September 26, 2017, through October 2018, the Committee researched and evaluated a broad range of funding strategies for affordable homes used by communities nationwide. Members of the Committee conducted extensive research, including reviews of past efforts and successes of other communities. The group discussed the challenges and strategies of creating affordable homes with employees of communities across the country, housing advocacy groups, Concord town employees, other Concord committees and boards, and individuals with special knowledge of affordable housing, planning, building, legislative initiatives, etc.