

# Affordable Housing Funding Study Committee



[AHFC@CONCORDMA.GOV](mailto:AHFC@CONCORDMA.GOV)

**UPDATE**

**JUNE 4, 2018**

# 2017 Town Meeting Charge



- **Study and determine cost-effective means to fund Concord's affordable housing goals.**

# Committee



- Ray Andrews, Todd Benjamin (Chair), Holly Darzen (Clerk), Sue Myers
- First meeting: September 27, 2017.
- Joint meetings with Concord Housing Authority, Concord Housing Development Corp, Concord Housing Foundation
- Guests: Kerry Lafleur (Finance), Marcia Rasmussen (Planning), Liz Rust (Regional Housing Services Office, Charles Phillips (Concord Housing Foundation), Linda Miller & Mary Hartman (Finance Committee), Karlen Reed (League of Women Voters)

# Funding Options



1. Building permit fee surcharge
2. Free Cash
3. Payments in Lieu of Taxes (PILOT)
4. Real estate transfer fee surcharge
5. Town budget line item

*Also looked at*

- Change the Community Preservation Act Rate or Allocation
- Payment in Lieu of Units (PILU)
- Tax incentive strategy
- Sales tax
- Bonds
- Trust fund

# Assumptions



- Wait lists, which can be 7+ years for affordable homes in Concord, are not expected to get shorter.
- As expressed at the 2017 Town Meeting, Concord residents want affordable homes to stay at or above 10% of total homes.
- According to the Planning Department, the number of new homes added annually is expected to continue to be 90-100 per year; need 9-10 new affordable units per year to stay at 10% level. (40-B)
- The cost of each affordable home (including land) could be \$500,000+, so \$4 million or more per year could be required.

# Building Permit Fee Surcharge



- A Concord fee would be based on a fee per per \$1,000 of construction value, in accordance with the Town's existing building permit fee structure (now \$12 per\$1000 of construction value).
- A surcharge could be a sliding scale based on the cost of construction

# Sliding Scale for Fee Surcharge



Construction Value Range & Example	Base Fee (w/out plumb/elect. fees)	Surcharge Option 1	Surcharge Option 2
<b>&lt;\$50,000</b> <b>Ex: \$20,000 bathroom</b>	<b>\$240</b>	<b>\$5/\$1000 = \$100</b>	<b>\$9/\$1000 = \$180</b>
<b>\$50,000 - \$100,000</b> <b>Ex: \$100,000 Kitchen/ Family. Rm. Addition</b>	<b>\$1200</b>	<b>\$8/\$1000 = \$800</b>	<b>\$10/\$1000 = \$1,000</b>
<b>\$100,000 - \$500,000</b> <b>Ex: \$500,000 New House</b>	<b>\$6000</b>	<b>\$10/\$1000 = \$5,000</b>	<b>\$15/\$1000 = \$7,500</b>
<b>&gt;\$500,000</b> <b>Ex: \$1,500,000 New House</b>	<b>\$18,000</b>	<b>\$15/\$1000 = \$22,500</b>	<b>\$20/\$1000 = \$30,000</b>

# Building Permit Fee Surcharge



- New revenues could be \$900,000 to \$1 million per year, if the construction value of building permits stays at 2016 levels.
- Commercial construction activity varies widely from year-to-year, so these revenues could vary widely.
- Affordable homes with deed-restricted sale prices or rent (meeting Subsidized Housing Inventory (SHI) requirements) would be exempt from any building permit fee surcharge.

# Free Cash



- Free cash refers to the unassigned funds in Concord's General Fund
- Free Cash is governed by the Town of Concord Financial Policies
- Per section 7 of the Policies, "It is Town policy to maintain Free Cash, at a level between 5% and 10% of the ensuing General Fund Budget"
- Over the last 5 years, Free Cash averaged 12%
- A use of Free Cash does not dictate higher taxes as there is no requirement that use of Free Cash in excess of 10% must be re-generated.

# Free Cash

## PROPOSAL



- Amend the town's financial policy to maintain free cash at a level between 5% - 8% of the ensuing General Fund Budget
  - 5/31/2017 Credit Opinion – Moody's Assigns Aaa to Concord MA's GO Bonds; Outlook Stable - Management and governance: 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, ...
- Amend the town's financial policy to state that if Free Cash rises above 8%, the amount of funds between 8% - 10% of Free Cash will be allocated to affordable housing.

# Free Cash

## USE OF FUNDS



- Brookline, MA Free Cash - Affordable Housing Trust Fund – to support the town’s efforts 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 \$5MM.
- 2017 Free cash was 11% (\$10.8MM). Allocating 3% (\$2.9MM) of total revenues to affordable housing, would have left free cash of 8% (\$7.9MM) and could have helped produce 5 affordable homes.

# PILOT: Payment in Lieu of Taxes



- PILOT - a formalized way for municipalities to seek payments from tax-exempt property owners.
- 86% of Concord's General Fund Budget is derived from property taxes.
- The 6 largest exempt entities do not pay tax on over 1,000 acres of land with a property value of \$228,542,000.
- Any property acquired by exempt entities ceases to pay taxes.
- Paying only 50% of the tax owed would yield \$1,633,000/year for affordable homes.

# PILOT in Massachusetts



<b>Entity</b>	<b>Community</b>
Lahey Hospital and Medical Center	Burlington
Phillips Academy	Andover
North Shore Medical Center	Salem
Salem State University	Salem
Umass Amherst	Amherst
Concord Housing Authority	Concord
Concord Municipal Light Plant	Concord

# PILOT



- PILOT addresses the consumption of land by exempt entities. This contributes to the high cost of land which makes it difficult to build affordable homes.
- Facilitating affordable homes helps our town become more economically sustainable by encouraging businesses to grow and relocate here. This broadens the tax base and reduces pressure on residential property taxes to fund the town budget.
- Affordable homes helps employees of these organizations live closer to work. This cuts commuting times, increases employee satisfaction, and helps employers recruit employees.

# PILOT

## POTENTIAL REVENUES FOR CONCORD FROM THE 6 LARGEST PROPERTY TAX EXEMPT ORGANIZATIONS



### Top 6 Tax-exempt Property Owners by Value

	Total Assessed Parcel Value	Land Area in Acres	Value/Acre	Implied Property Tax	50% of Implied Tax
Middlesex School	\$ 70,337,800	332.68	\$ 211,427	1,005,127	502,564
Concord Academy	\$ 50,481,700	39.14	\$ 1,289,740	721,383	360,692
President & Fellows of Harvard College	\$ 42,750,000	611.84	\$ 69,871	610,898	305,449
Emerson Hospital	\$ 33,561,800	31.64	\$ 1,060,874	479,598	239,799
Fenn School	\$ 19,045,900	23.95	\$ 795,203	272,166	136,083
Nashoba Brooks School	\$ 12,364,800	28.556	\$ 433,004	176,693	88,346
<b>TOTAL</b>	<b>\$ 228,542,000</b>	<b>1,068</b>	<b>\$ 214,030</b>	<b>3,265,865</b>	<b>1,632,933</b>

# Real Estate Transfer Fee



- In effect in 35+ states, as well as many counties and municipalities, when real property changes ownership
- Proceeds support ongoing operations and are sometimes earmarked for specific purposes such as affordable homes or open space preservation

# Real Estate Transfer Fee

## NEW ENGLAND



State	Transfer Fee
Connecticut	.75% - 1.25% (state only; some municipalities impose additional fees of .25% to .5%)
Massachusetts	.456%
New Hampshire	1.5%
Rhode Island	.46%
Vermont	.5% to 1.45%

### *Supplemental Transfer Fees in MA*

- Barnstable County: \$3.06 per \$1000
- Dukes County: 2%
- Pending on Nantucket: .5% to fund affordable housing

# Real Estate Transfer Fees

## POTENTIAL CONCORD REVENUE FROM LOCAL SUPPLEMENTAL TRANSFER FEE 2012-2017



Year	Value of Sold Properties	1% Local Transfer Fee	.5% Local Transfer Fee
2012	\$346.9 m	\$3.5 m	\$1.7 m
2013	\$348.1 m	\$3.5 m	\$1.7 m
2014	\$354.1 m	\$3.5 m	\$1.8 m
2015	\$339.5 m	\$3.4 m	\$1.7 m
2016	\$514.1 m	\$5.1 m	\$2.6 m
2017	\$329.6 m	\$3.3 m	\$1.6 m
<b>6 years</b>	<b>\$2.2 b</b>	<b>\$22.3 m</b>	<b>\$11.2 m</b>

# Town Budget Line Item



- Concord could allocate funds to affordable housing each year through a line item in the annual budget.
- The line item could be included in each year's budget at the same amount to provide a predictable funding source for affordable housing.
- Because affordable housing opportunities don't coincide with the Town's budget year, and budgets must be spent in the fiscal year appropriated, this option would require a mechanism such as an affordable housing trust fund to "bank" the funds for future use.

# Managing Affordable Housing Funds



- Affordable housing opportunities may need fast response.
- Funds must be available to act on these opportunities.
- Issuing bonds or establishing an affordable housing fund can help insure opportunities are not missed.

# Bonds for Affordable Housing



- The funding options chosen by the town could take some time to implement and generate a pool of funds available.
- In the meantime, Concord could establish a bond offering of a size to fund affordable housing initiatives for 3-5 years.
- The bonds would be paid over time by the funding options selected.

# Affordable Housing Fund



- A stabilization fund could accumulate funds for affordable housing to be ready for new opportunities.
- Many communities use 'land banks' to fund purchases of open space and for affordable housing.
- A fund could 'smooth out' inflows from funding options.

# Approvals Needed



	<b>FinCom</b>	<b>Select Board</b>	<b>Town Mtg</b>	<b>State</b>
<b>Building Permit</b>	X	X	X	X
<b>CPA Funding</b>	X	X	X	X
<b>Free Cash</b>	X	X	X	
<b>PILOT</b>		X		
<b>PILU</b>		X		
<b>Transfer Fee</b>	X	X	X	X
<b>Budget Line Item</b>	X	X	X	
<b>Bonds</b>	X	X	X	
<b>Housing Fund</b>	X	X		

# AHFC Committee



**[AHFC@ConcordMA.gov](mailto:AHFC@ConcordMA.gov)**

- Ray Andrews
- Todd Benjamin (Chair)
- Holly Darzen (Clerk)
- Sue Myers