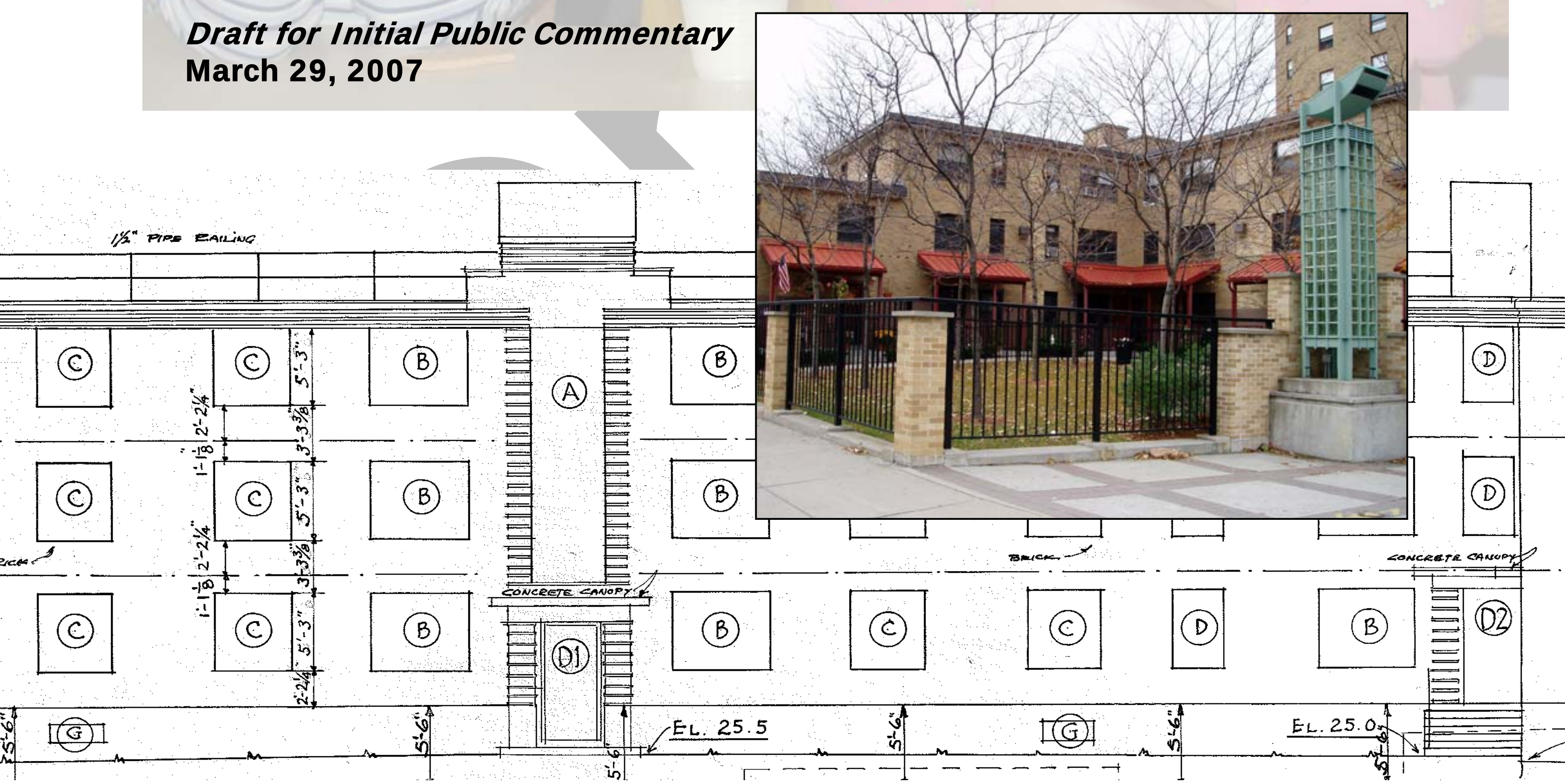
An Approach to Preservation:
Repositioning Boston's Public Housing for the Future

Draft for Initial Public Commentary
March 29, 2007



Boston Housing Authority

An Approach to Preservation: Repositioning Boston's Public Housing for the Future

Draft for Discussion and Initial Public Commentary

<u>BACKGROUND:</u>

The Boston Housing Authority (BHA) manages over 10,000 units of federal public housing. This portfolio is facing a serious and long-term shortfall in capital funding for needed upgrades and repairs. Capital funding from the U.S. Department of Housing and Urban Development (HUD) has historically been insufficient to cover the maintenance and renovation needs of these units. Particularly in the past decade, the situation has worsened as escalating construction costs and stagnant or reduced capital fund allocations have severely limited the BHA's ability to address the physical needs of the portfolio. Recent efforts to inventory the capital needs of the BHA's federally-funded public housing portfolio have generated some stark conclusions:

- The capital needs of the BHA federal portfolio are estimated at approximately $500 million over the next 5 years alone.

- The BHA currently receives approximately $24 million annually through HUD's Capital Fund Program (reduced from $37 million in 1995). As a result of deep cuts in the Operating subsidy, the BHA has had to divert a significant portion of the Capital grant in order to balance its operating budget, which includes maintenance, administrative and utility costs. This leaves only about $14 million per year for capital work.

- Shortfalls in federal operating subsidy, which has been cut by $29 million since 1995 for BHA alone, amplify the strain on the BHA's properties and contribute significantly to the escalation of capital needs.

- At the current level of funding it would take decades to address even the $500 million of urgent capital needs at the BHA's federal sites, while continued deterioration will further drive up the long-term costs at each site.

The BHA is facing capital needs of this magnitude at a time when HUD is making a significant shift in its approach to funding public housing nationwide. HUD is implementing a new operating subsidy formula that requires public housing authorities to switch to a site-based accounting and budgeting system rather than the current agency-wide subsidy allocation. HUD's new focus on site-based management will limit flexibility to shift funds among sites. Individual sites will be required to be financially self-sufficient. The steadily mounting gap between federal capital resources and needs, coupled with these operating subsidy changes, has prompted the BHA to undertake a comprehensive asset management planning process.

This process has involved a site-by-site analysis in order to evaluate each BHA housing development within the context of the entire portfolio. We began by quantifying the existing immediate and long-term capital needs of each site, and then discussed a long-range physical plan for every site based upon available resources. Vacant properties were reviewed for opportunities for redevelopment or revenue generation. We did additional analysis of our largest sites—Charlestown, Mary Ellen McCormack, and Old Colony—in order to strategize about how to preserve these major sites as affordable housing, despite their overwhelming capital needs.

The underlying intent in weighing various strategies to preserve the portfolio has been a) to ensure optimal benefits to residents and b) to stay aligned with the BHA mission to provide quality affordable housing. In considering difficult scenarios involving disposition, loss of public housing units, or delayed capital investment, we have continually paused to consider how these scenarios would impact current and future BHA residents.

There is no magic formula, and unfortunately, there is no strategy that will address the full level of need across the portfolio. Nevertheless, the BHA has identified several key initiatives that will optimize available resources for the portfolio going forward, and enhance the quality of life for BHA residents. These initiatives are intended to supplement the ongoing capital improvements financed through the conventional federal Capital Fund Program. Some of these initiatives have already been part of a community discussion, while others are new. Taken together, they constitute the BHA's proposed *Approach to Preservation.*

In particular, we considered the following specific strategies to maximize the resources available to stabilize and enhance the portfolio:

- Capital Bond Financing to accelerate access to capital funds for immediate needs
- Public-private partnerships to secure funding for redevelopment projects
- Energy Performance Contracting opportunities to leverage private sector funding for heat and hot water systems and other energy-related upgrades
- Potential disposition or transfer of property if the result would either stabilize the property as affordable housing under new ownership, or provide resources to create or preserve better quality affordable housing elsewhere.

This proposal is specifically intended for public comment and is not final. **The key next step is to engage in a dialogue with BHA residents, partners, regulators and other stakeholders in order to seek input and refine this plan.**

Note on State-Assisted BHA Public Housing Units:

In addition to federally-assisted units, the BHA also owns and operates over 2,000 state-funded units. A separate process and plan will be developed to address the state portfolio, since these units are subject to a different regulatory and funding scheme. However, to the extent that some state-related initiatives are known as of this writing, they are included in the summary below so that they can be part of the current community process and dialogue.

KEY INITIATIVES:

I. Capital Fund Program

All of the strategies noted below are meant to supplement the ongoing Capital Fund Program (CFP) administered at the BHA. The CFP provides $24 million annually, and it will continue to help address the physical needs of the portfolio in years to come. Each year, the BHA issues an Annual Statement and Five-Year Plan for these funds, based upon current physical needs priorities. These plans are reviewed by residents and made public for comment each year. The CFP is the critical cornerstone of the overall plan to preserve the BHA's public housing stock, but it is not sufficient to address the comprehensive needs of the federal portfolio—hence the strategies highlighted below. The CFP Annual Statement and 5-Year Plan each are part of the BHA's annual Agency Plan, a summary of which is available in the BHA Planning Library (11th Floor, 52 Chauncy Street, Boston 02111) or on the BHA web site at www.bostonhousing.org

II. Capital Fund Financing Program

HUD regulations permit housing authorities to issue bond debt to be repaid out of future CFP subsidy allocations. A portion of the annual CFP subsidy to be received from HUD in future years can be pledged to leverage a lump-sum infusion of capital funding from the bond market today. This is called the Capital Fund Financing Program (CFFP).

The BHA has initiated a CFFP planning process with the goal of issuing bonds in Fall 2007. The transaction will yield about $74 million to be used to fund capital improvements over the next 5 years. The debt service for the bonds will be paid out of annual CFP grants over 17 years beginning in 2010. While there are financing costs associated with such a bond transaction, there are key benefits to leveraging additional funds right away. First, the lump-sum of bond proceeds will make possible large-scale improvements at the BHA's biggest sites that could not be undertaken on the basis of annual CFP allocations. Second, this large-scale repair work will diminish the backslide of deterioration at key sites now, saving future CFP dollars and better securing the portfolio for the future. Making these repairs now using bond proceeds should also result in lower operating costs, linking the capital investment with the need for properties to stand on their own financially under HUD's new subsidy rules. The following expenditure (approximate) is projected under this initiative:

Charlestown • Replace Bathroom Supply and Waste Lines • Add Bathroom Exhausts • Upgrade Bathroom Finishes • Replace Roofs at Eight Buildings • Replace Unit Entry Doors • Replace Management Building Windows • Install Security System	$ 18,400,000

Mary Ellen McCormack • Replace Bathroom Supply and Waste Lines • Add Bathroom Exhausts • Upgrade Bathroom Finishes • Repair and/or replace exterior stoops and steps • Replace Unit Entry Doors • Repair Exterior Envelope	$ 18,400,000
Old Colony • Replace Bathroom Supply and Waste Lines • Add Bathroom Exhausts • Upgrade Bathroom Finishes • Replace Unit Entry Doors, Upgrade Unit Security	$ 14,000,000
Various Elderly Sites • Fire Alarm Upgrades • Elevator Upgrades	$ 5,000,000
ESCO-related Upgrades (see next section)	$ 6,600,000
Construction Contingency	$ 6,294,768
Project Mgmt / Admin	$ 4,000,000
Relocation	$ 1,520,000
Total	**$74,214,768**

III. Energy Performance Contracting

HUD allows public housing authorities to enter into Energy Performance Contracts with companies called ESCOs (Energy Services Companies) that provide HVAC, plumbing, electrical and other energy-related upgrades in exchange for a fee derived from the utility cost savings resulting from those improvements. The arrangement allows a housing authority to leverage private sector funds to make improvements rather than use scarce federal capital funds.

Because of its aged and inefficient energy infrastructure, the BHA is subject to very high utility costs—as much as 50% of total site expenses at BHA housing developments. The BHA's water, electricity, oil and gas bills now total about $40 million annually. Upgrades to energy and water infrastructure and other energy saving measures can result in significant cost savings.

Under an Energy Performance Contract, the BHA and HUD commit to providing the ESCO contractor with fixed payments over a number of years based on current utility costs, while the ESCO contractor commits to carrying out a range of repairs and upgrades that result in energy savings. (The contractor finances the upgrades and earns a fee out of the cost savings between current energy costs and the actual lower costs resulting from the upgrades). To date the BHA has completed two Energy Performance Contracts resulting in $17 million worth of privately-financed energy upgrades at 9 of its housing developments. The BHA is now negotiating a third contract, which will finance $45-50 million worth of improvements at 14 federal sites. The upgrades are not only critical in terms of sustaining these buildings, but will reduce operating costs significantly, which will benefit the developments under HUD's new operating subsidy rules. The following is a tentative list of sites that will receive utility repairs and upgrades as part of this initiative, depending upon final contract negotiations:

Development	**Potential Scope of Work**
Bromley	New Decentralized Heating & Domestic Hot Water Systems, Upgraded Distribution piping, High Efficiency Low flow toilets, Common/ Exterior lighting, Weatherstripping, Apartment Doors
Charlestown	New Decentralized Heating & Domestic Hot Water Systems, Upgraded Distribution piping, High Efficiency Low flow toilets, Common/ Exterior lighting, Weatherstripping, Apartment Doors
Commonwealth	New Boiler and Apartment Heating Controls, Consolidate Electric Meters, Low flow toilets, Common/Exterior lighting, Weatherstripping Apartment Doors
Franklin Field	New Boiler and Apartment Heating Controls, Consolidate Electric Meters, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Heath	New Decentralized Heating & Domestic Hot Water Systems, Consolidate Electric Meters, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Holgate	New Boiler and Apartment Heating Controls, Consolidate Electric Meters, Replace steam traps, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors.
Lenox	New Boiler and Apartment Heating Controls, Consolidate Electric Meters, Replace steam traps, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors, Roof-mounted Solar Photovoltaic panels
Old Colony	New Boiler and Apartment Heating Controls, Consolidate Electric Meters, Decentralize Domestic Hot System, Replace steam traps, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors

Pasciucco	Apartment Heating Controls, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Roslyn	New Boiler and Apartment Heating Controls, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Torre Unidad	Apartment Heating Controls, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors and Combined Heat and Power System
Washington Beech	Low flow toilets, Energy Efficient common, Exterior lighting, Weatherstripping, Apartment Doors, Roof-mounted Solar Photovoltaic panels
Washington Street	Replace steam traps, Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Whittier	New Decentralized Heating & Domestic Hot Water Systems, Upgraded Distribution piping, High Efficiency Low flow toilets, Common/Exterior lighting, Weatherstripping, Apartment Doors
Total	**$ 45 - $50 million**

IV. Mixed-Finance Redevelopment

Mixed-Finance is the model made familiar through HUD's HOPE VI program. It can transform an entire public housing development and the surrounding neighborhood by drawing on an array of financing sources including public housing capital funds, other public resources from state and local governments, and federal low-income housing tax credits that generate private investment equity. While a mixed-finance strategy makes redevelopment possible on a dramatic scale, it is extremely resource intensive.
In addition to securing competitive governmental funding, the BHA must invest significant resources and staffing for planning, resident and stakeholder processes, relocation, and public-private partnerships.

The BHA has completed over $500 million in mixed-finance redevelopment projects over the past decade, with over 80% of these funds from sources outside of BHA. We have just completed our fourth mixed-finance redevelopment at Maverick Gardens, which joins similar efforts completed at Mission Main, Orchard Park, and West Broadway in creating over 1500 units of new housing.

The Authority's current redevelopment priority is Franklin Hill, projected to total $91 million. Demolition is now underway at this site, to transform a 366-unit superblock of severely distressed housing into an attractive 315-unit community of new townhouses and midrise apartment buildings. The project has received significant financial support from the City, State, HUD, and private investors. Phase One, comprising 114 units, will be completed in the summer of 2008, with future phases to follow.

Through these developments, the BHA has become a national leader in public housing revitalization. Its future mixed-finance endeavors will be limited, however, by the availability of tax credit and other state and local funding.

BHA proposes to initiate redevelopment efforts next, subject to the availability of funding, at Washington Beech and Orient Heights. These sites present particular opportunities or needs which make them the best candidates for redevelopment:

- **Washington Beech**. The Washington Beech development in Roslindale has been high on the redevelopment priority list for over a decade due to its physical conditions. The site remains seriously distressed, and tenants have endured ongoing disruption for short-term repairs without the benefit of a long-term plan. When HOPE VI funds for this site were not approved in 1997 and 1998, the BHA focused its redevelopment efforts upon other sites (Maverick and Franklin Hill). We have now re-established Washington Beech as a key priority site based upon need, feasibility and location, and will seek federal, state and City funds to aid its revitalization. In particular, the site's size at 265 units makes it far more feasible for redevelopment than many of our larger sites. The BHA will initiate an inclusive planning process for this site in 2007, with a goal to break ground by 2010.

- **Orient Heights**. The BHA's priority for redevelopment within the state portfolio will be Orient Heights. This site is facing significant distress due to its aged infrastructure, deteriorated site and buildings, and challenging topography. A redevelopment would include replacement public housing as well as moderate-income rental and homeownership opportunities. The BHA has been working with state officials to create funds for state public housing through a housing bond bill. More intensive planning for Orient Heights would begin subject to successful authorization of sufficient funding by the legislature.

The BHA also spent considerable time evaluating opportunities for redevelopment at the Authority's largest sites at Charlestown, Old Colony and Maryellen McCormack. These sites combined represent over $150 million in capital needs, and comprise over 40% of the federal family units. Redevelopment at any one of these sites would take years of planning and resource accrual, and require significant policy deliberations due to the magnitude of the project. The BHA will continue to develop blueprints for revitalization of one or more of these sites over time, while moving ahead with the shorter-term initiatives outlined in this Plan. We will share further concepts for public comment when available. In the meantime, these sites will benefit significantly from the ESCO and CFFP projects.

V. Assisted Living

The mixed-finance approach will be applied to the elderly federal portfolio through the development of an Assisted Living Facility (ALF). Across the BHA's portfolio of 36 elderly/disabled developments (close to 3,700 units total), seniors are experiencing increasing frailty and need for services as they live longer in independent housing. While Assisted Living alternatives have emerged all over Boston, most facilities have few slots for very low-income seniors. Public housing operating subsidy, in combination with other sources, could provide a key mechanism to creatively finance an affordable ALF.

BHA would like to broaden housing options for its elderly public housing residents and for low-income elderly households in general by providing an ALF within its portfolio. We will explore the possibility of converting an existing elderly/disabled public housing building, or a portion of a building, to assisted living, or constructing a new ALF on a parcel of land that the BHA owns.

The BHA is in the process of procuring technical assistance to complete a feasibility study for this initiative. The study will address the following:

- Evaluate the BHA's existing elderly buildings for optimal ALF conversion candidates, and to compare this evaluation against an analysis showing a newly-constructed ALF on a vacant parcel of land owned by the BHA.
- Assess the needs of BHA residents to determine the interest, need and feasibility of moving existing BHA residents into an ALF.
- Develop a plan to create an attractive, well-managed ALF that reflects the vision of community residents and provides a spectrum of services to a diverse population of elders.

VI. Elderly/Disabled Development Funding via Project-Based Vouchers

Projected-Based Vouchers are Housing Choice Vouchers (i.e., Section 8 vouchers) that are tied to a specific apartment or apartment complex as opposed to mobile vouchers that are issued to individual households. HUD permits public housing authorities to "project base" up to 20% of the vouchers that they administer. For the BHA's inventory of almost 12,000 vouchers, approximately 2,400 vouchers could be tied to apartment units or apartment complexes.

Historically the BHA has made Project-Based Vouchers available to private affordable housing developments. The BHA can, however, reserve new Project-Based Vouchers for its own purposes. In particular, the BHA could remove some of its existing housing units from the public housing program and then apply Project-Based Voucher subsidies to those units. We are utilizing this strategy at Franklin Hill, where 66 of the new 315 units will be Project-Based Section 8. This strategy has the added benefit of allowing the BHA to apply for replacement vouchers for converted units, so the unit itself is preserved as affordable with a Project-Based voucher, while the BHA gets an additional mobile voucher for each unit that is converted.

Prime candidates for this application would be the BHA's elderly/disabled sites, because the rules for Project-Based Vouchers allow vouchers to attach to 100% of units at an elderly site, rather than 25% of units at family developments. The advantage of vouchers is that they typically provide more cash for repairs to the Owner of the property than the operating subsidy used in conventional public housing. For example, in 2005, the BHA's average public housing unit received $875 per month (tenant rent plus federal operating and capital subsidies); average fair market rent for Section 8 units was $1,243 (tenant rent plus Section 8 subsidy).

The BHA proposes to initiate applications to transfer approximately 500 units of elderly/disabled housing to Project-Based Vouchers at 2 sites over the next 3 years. Further transactions may follow in future years.

Residents of properties converted to Project-Based Vouchers would be protected in a number of ways. Rents would stay comparable at 30% of adjusted gross income. The converted units would become priority units within BHA's Project-Based Voucher portfolio for renewal and extension. The BHA would also allow those who wish to stay in public housing to transfer to another BHA site prior to the conversion, and to transfer in certain emergency circumstances to another BHA unit after the conversion as we have done at our HOPE VI sites. In addition, a PBV resident is eligible to apply for tenant-based vouchers if they prefer.

Project-basing a portion of our elderly portfolio over time will secure these properties as affordable housing available to the lowest-income population in the City, while providing far greater resources for capital improvements than leaving the buildings as public housing units. More specifically, we anticipate that for each site that undergoes this process, there will be sufficient resources generated by the Section 8 subsidy and the tenant rent so as to allow for a replacement reserve account to fund future capital needs.

This process will involve a technical disposition of some elderly sites from the BHA to a separate BHA-owned entity, in order to remove them from the public housing regulatory environment, and to place them in the Section 8 regulatory environment. However, this is not a disposition in the sense of abandoning the current residents or the affordability of the units—it simply allows for a repositioning of the property from public housing to project-based Section 8.

This initiative will be subject to a lengthy public process with multiple public hearings related to our Agency Plan and disposition application requirements.

NEXT STEPS:

The key next step in the planning process is to dialogue with BHA residents, regulators, partners and other stakeholders in order to seek input and refine the strategies summarized in this report.

Most importantly, we will meet with the BHA's Resident Advisory Board, Monitoring Committee, and Local Tenant Organizations in order to review the strategies. We expect these meetings to take place in April and May 2007. We will also schedule a public hearing, most likely in May 2007, for a wider audience to provide input.

We will also meet with HUD, interested elected officials, key City and State partners, housing advocates, and other stakeholders. Our goal is to complete this public review by June 1, 2007.

Please contact us in writing (email is fine) if you have questions or comments by June 1, 2007:

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