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The housing puzzle

LAST YEAR the Commonwealth took a major but incomplete step toward increasing the supply of housing, especially for young families who have been leaving the state in droves. The passage of Chapter 40R (the Smart Growth Zoning and Housing Production Act) provided incentives as an inducement to local municipalities to rezone some of their land near transit stops, town centers, and on the sites of underutilized property so that developers could build affordable housing for working families. The financial incentives offered to local communities include a one-time bonus payment for creating these smart growth overlay zoning districts and a $3,000 payment for each housing unit built under the new law.

Chapter 40R was passed unanimously by the legislature and signed by the governor in large measure because recent demographic trends in the Commonwealth are frightening. With the explosion of housing prices, migration out of the Commonwealth has increased dramatically. According to the US Census, excluding foreign immigration of roughly 31,000 a year, the number of domestic net out-migrants has increased from just over 14,000 in 2000-2001 to nearly 59,000 in 2003-2004 — in line with the sharp decline in housing affordability. Combined with a low birth rate, the Commonwealth was the only state in the nation to experience a net loss in population last year. If these were seniors moving to Florida, that would be one thing. But the Census data suggest that a large proportion of these out-migrants are young workers ages 20 to 34.

For a number of towns and cities, the incentives in Chapter 40R provide a significant inducement to consider such rezoning. As a result, there is hope that some new worker affordable housing will be built. But, according to a recent study by the Center for Urban and Regional Policy at Northeastern University on behalf of the Commonwealth Housing Task Force, the Chapter 40R incentives do not come close to eliminating the major barrier to passing smart growth zoning for 238 of the 351 municipalities in Massachusetts.

The real barrier is the cost of K-12 schooling for the children who might live in the housing built in these districts. Because the current state-financed program for K-12 schooling (Chapter 70) does not provide additional funding if there are additional kids in these 238 school districts, these communities are reluctant to allow denser, less expensive single-family homes within their jurisdictions. Building age-restricted housing for seniors and allowing the construction of McMansions on 1- and 2-acre lots that generate large amounts of property tax revenue make economic sense for these municipalities. But the numbers don't add up for single-family homes assessed in the range of $250,000 to $300,000. Local tax revenue from such "affordable" units is less than the added school costs for the children who would move into them.

A new bill in the Senate introduced by Senator Harriette Chandler would solve this problem at minimal cost. If passed it would provide a "school cost insurance policy" for local communities passing Chapter 40R districts, indemnifying them against school costs that exceed the amounts available from increased property and excise tax revenue generated by new housing units in smart growth districts. This legislation would strengthen the housing partnership between the state and local municipalities forged last year through passage of Chapter 40R. It would address the fiscal needs of local school districts and in so doing improve the chances of building the housing the Commonwealth so badly needs.

Only those communities that permit more affordable housing to be built in smart growth locations and experience net school costs exceeding new local tax revenue will be eligible to benefit from these "insurance" funds. As a result, the cost to the state for this program is expected to be less than $2 million in 2008 (with no costs until then), growing to an estimated $35 million a year in 2014 if the full projected 33,000 housing units are built in Smart Growth districts by that time. Given projected Chapter 70 state aid of $4.4 billion for education in 2014, the additional state contribution to school districts is only eight-tenths of 1 percent.

The price tag on the bill is small indeed, particularly when this Smart Growth program is understood as one of the most potent forms of economic development assistance for working familes.

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