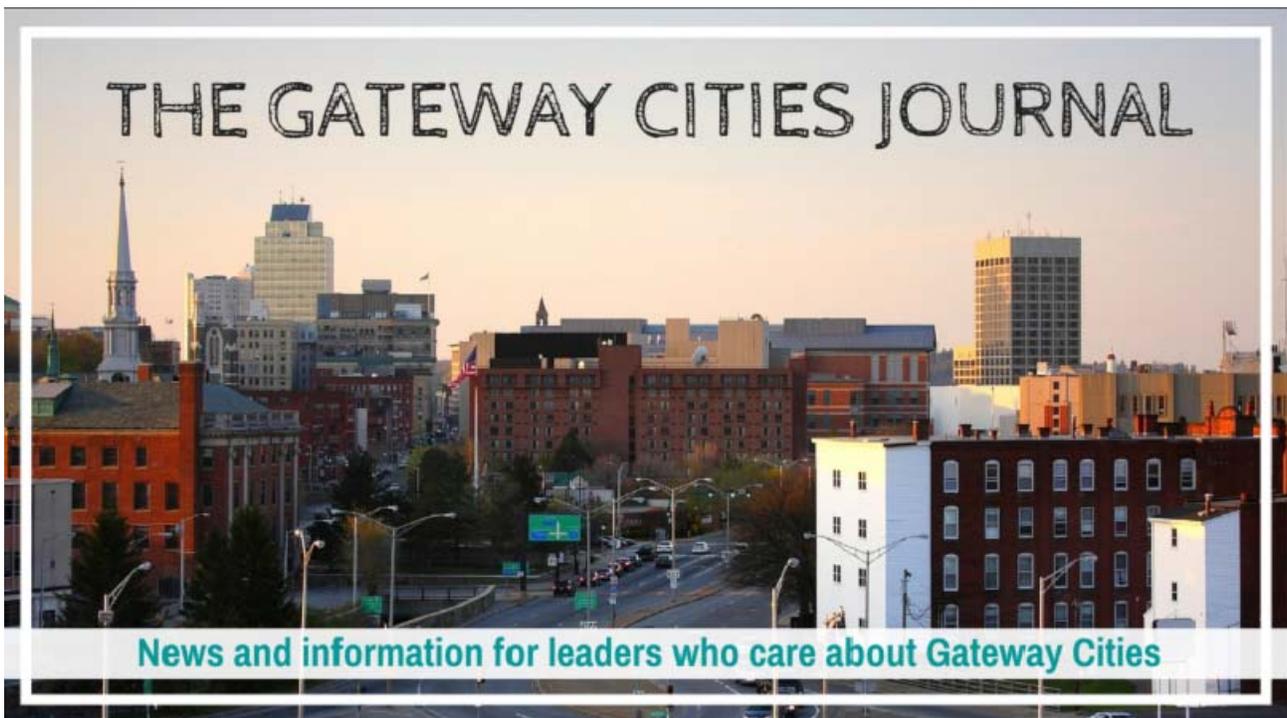


*Concord Square Planning & Development, Inc.
Housing Partners, Inc.*

**Workforce Housing Trust Fund – Gateway Cities
Journal Report**

August 16, 2016



**At the buzzer, Gateway City leaders
score a game-changer**

236 Huntington Ave, Suite 402, Boston, MA 02115

617-482-1997

www.concordsqdev.com

Gateway City leaders enthusiastically applauded the smart economic development investments Governor Baker signed into law last week at the State House. This session's economic development package authorized an usually large infusion of capital spending, including \$500 million for the MassWorks grant, \$45 million for the Brownfields Redevelopment Fund, and \$45 million for the Transformative Development Initiative. These significant sums demonstrate how committed the Baker administration is to Gateway City revitalization.

But the big ticket pieces might not represent the most significant achievement for Gateway Cities in the bill. Quietly tucked into the [omnibus legislation](#) is a pilot program developed by Ted Carman and Eleanor White. Over the past year, the two long-time Massachusetts housing leaders worked together tirelessly on a plan to solve the state's housing challenge by making far more Gateway City developments economically feasible through a "Workforce Housing Production Trust Fund."



**Governor Baker signs economic development bill on
August 10, 2016**

The novelty is this new trust fund provides an avenue for the state to recoup the large infusion of patient equity it provides to Gateway City projects. In exchange for funding equal to twice the [Housing Development Incentive Program \(HDIP\)](#) tax credit, the state can capture 25 percent of the project's annual cash flow and 25 percent of the developer's profit at sale or refinancing, up to the full amount of state funding provided.

Senator Donoghue and Senator Chandler saw the logic in this proposal and encouraged the Senate President to champion the concept. When the Senate's economic development bill made its way over to the House, Rep. Cabral convinced his House colleagues on the conference committee to give the Carman-White idea a try. The final bill included funding for a \$25 million pilot. Rather than veto the allocation, the Baker administration wisely accepted the legislature's innovative contribution to the economic development bill.



The potential to have up to 50 percent of construction costs covered by state equity will drive many developers to take a fresh look at Gateway City projects. This could create pressure to redevelop buildings that don't make all that much sense, but the [Transformative Development Initiative](#) provides an excellent hedge against that risk. MassDevelopment's work identifying districts, inventorying properties that represent opportunities for catalytic redevelopment, and building community support and momentum provides a strong framework for selecting smart investments. Think of this new trust fund as filling in one of the last missing pieces—a strong tool to get more housing developers and private capital in the mix.

Ted Carman and Eleanor White had convincing analysis to show the state will earn a real return through higher tax revenue that comes with job growth spurred by housing production. If this program proves to be as powerful we think it could be, they will deserve enormous gratitude. But history should also recall the leadership that Gateway City legislators provided advocating for this game-changer at the hectic conclusion of a busy session.

- [Winthrop Roosevelt](#)

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Workforce Housing Trust Fund

August 10, 2016

Legislation: The Economic Development Bill passed by the House and Senate on July 31, 2016 and signed by the Governor on August 10, 2016, authorizes a **Workforce Housing Trust Fund (“WHTF”)** for Gateway Cities as a \$25.0 million pilot project.

The Workforce Housing Trust Fund addresses three problems. First: The Commonwealth suffers from demographic and other trends that are expected to cause the labor work force in the State to *actually shrink* by 2020. The projected result will be a shortage of workers and a cut in the rate of economic growth from 3% to 1.5% between the years 2015 and 2018. **Second:** Gateway Cities have commercial and industrial core areas suffering from neglect, a lack of investment, and with many buildings empty or significantly underutilized. **Third:** Massachusetts continues to suffer from a lack of housing affordable to working families. One of the reasons employers can’t recruit new workers to expand the economy is that potential workers have no place to live.

The Opportunity. The built environments of these communities are exceptional, containing many beautiful historic buildings, both commercial and industrial. Sixteen of the 26 Gateway Communities are connected to downtown Boston by the T or commuter rail. Almost without exception, these communities welcome new market rate housing. And market rate housing would rent at workforce housing rent levels – exactly as needed by the Commonwealth. Further, historic buildings are eligible for a 20% Federal Historic Tax Credit (FHTC) at no cost to the Commonwealth.

The New Legislation: The Economic Development bill makes changes to the **existing** Housing Development Incentive Program (HDIP) by increasing the HDIP tax credit from 10% up to 25% and making new construction eligible for the program.

In addition, the new WHTF provides funding (not a tax credit) for HDIP projects up to an amount equal to 200% of the maximum Tax Credit amount (i.e. up to 50% of the HDIP eligible cost base). These changes will make it newly feasible for developers to renovate historic buildings and build new market rate housing in HDIP Districts in Gateway Cities.

In return for WHTF funding, project developers will agree to share with the Commonwealth 25% of the cash flow and 25% of the profits on sale or refinancing of the project until such time as the full amount of support is repaid.

Funding: The authorization contemplates that funding will be provided pursuant to bond proceeds being placed in the Workforce Housing Trust Fund, and that the Trust Fund will use the proceeds to support projects in HDIP Districts.

Cost / Benefit: Analysis indicates that for every \$1.00 of cost to the State, it will receive \$3.40 in net present value benefits; Profit Sharing will return the cost of the initial support.

The WHTF will help alleviate the Commonwealth’s shortage of workforce housing, will revitalize the participating communities, and will moderate future rent increases.

Concord Square Planning & Development, Inc. Housing Partners, Inc.

Massachusetts Workforce Housing Trust Fund as passed in the Economic Development Bill – House 4569

7-31-16

The Text of the Bill

"7004-8018 For a Workforce Housing Production Trust Fund, which shall support a program administered by the secretary of housing and economic development for the benefit of projects that are eligible for certification under section 4 of chapter 40V; provided, however, that dispensed funds may be issued up to an amount of 200% of the project's full eligibility under said chapter 40V; provided further, that to receive the funds the project developer shall agree to return to the trust fund 25 per cent of the project's annual cash flow and 25 per cent of the profit received by the developer for the sale or refinancing of the project; provided further, that the payments required of the developer shall not exceed the total amount dispensed from the trust fund to the project; and provided further, that the secretary shall direct the agencies under the secretary's purview to issue additional regulations and guidance, as necessary, for the implementation of this program \$25,000,000."

Narrative Summary of the Workforce Housing Trust Fund

The provisions of House 4569, the Economic Development Bill, were passed by the Massachusetts House and Senate on July 31, 2016. The text above authorizes a Workforce Housing Trust Fund ("WHTF"), which builds on the current Housing Development Incentive Program ("HDIP" - Ch. 40V). The program's goal is to provide sufficient funding to make market-rate residential developments feasible beyond what is achievable under the current HDIP in both existing buildings to be rehabilitated and in new construction projects in Gateway Cities

The Trust Fund concept eliminates the need for State Tax Credits under this version of HDIP, a refinement that we believe makes the program 20% more efficient – that is, it will be able to support projects costing in aggregate 20% more than if the same support to the projects had been provided using tax credits, thus making the same funding go considerably further. In addition, at no cost to the State, Federal Historic Tax Credits can be used in tandem with the funds from the WHTF for historic buildings to enable projects to achieve economic feasibility.

Workforce Housing Trust Fund
August 1, 2016

The Bill also provides for raising the maximum HDIP tax credit up to 25%, and allows the use of HDIP tax credits for new construction as well as for renovated buildings. Since WHTF is a subset of HDIP, this “up to 25%” will become the base amount x 200% for the calculation of the bond proceeds allocable to a WHTF project, as described next.

State general obligation bond proceeds will be deposited into the Trust Fund and will support projects otherwise eligible for the HDIP. As the program has been conceived, projects will receive up to 200% times the amount of funding that they would be eligible for under HDIP, and will receive commitments for the funds prior to the start of construction, thus providing both up-front proceeds and important predictability to the flow of funds.

In return, projects opting into WHTF will agree to pay to the Commonwealth 25% of annual cash flow and 25% of profits on sale or refinancing, until such time as the full amount of the support is repaid to the Commonwealth, thus re-paying the up-front cost of the program, and resulting in a program of critically-needed housing production for the Commonwealth.

The Secretary of EOHED has the authority to develop the program’s regulations and administer the program, which will begin as a pilot funded at \$25 million over and above the current HDIP program cap of \$10 million. The pilot will serve as an important test of the concept.

Although details are to be worked out by the Secretary, an efficient way to fund the projects would be through a loan to the developer provided by a State non-profit or quasi-public (to comply with State constitutional requirements). The loans could be interest free, have a 30 to 35-year term, and would be non-recourse, subordinated, secured by the real estate, and assumable, along with the profit sharing, at the time of the sale of the project.