



July 17, 2015

Chrystal Kornegay, Undersecretary
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114

RE: Community Scale Production Program

Dear Chrystal,

Thank you for your continued efforts to create and implement a Community Scale Production (CSP) Program, to support the creation of smaller scale housing developments of 6-20 units, both rental and homeownership, that meet the specific market needs of a local community, and fit within the context of that community in terms of scale, density, and height.

I also want to thank you for your continuing commitment to finding the resources to make CSP a reality, despite not receiving an increase in the Fiscal Year 2016 Housing Capital Budget to fund CSP. I want to reaffirm how important CSP is for MACDC and its Members, and to pledge to give you whatever support you need to achieve our shared goal of creating a new vehicle for these community scale projects. The current system of having these projects compete directly with larger tax credit projects in the Rental Round has proven to be difficult for both DHCD and project sponsors and has resulted in creating a structural disadvantage for smaller projects. This is a sub-optimal result as these projects are needed in rural areas where larger developments are not appropriate or feasible, in suburban areas where residents and local officials are seeking new housing that fits their community context, and in urban areas where there are infill sites and where existing rental properties can be rehabilitated into high quality housing.

I also want to reiterate what we see as key components of CSP:

1. We need sufficient resources for CSP. Setting aside \$20 million per year for the program would allow DHCD to provide funding for a robust pipeline of rental and homeownership projects.
2. CSP rental applications should be considered in a rental round competition separate from the rental round for tax credit projects. This will facilitate an “apples to apples” comparison of projects, and allow for a specific set of underwriting considerations (more on this below).
3. DHCD should hold a competition for affordable homeownership projects. DHCD’s recent re-entry into funding homeownership projects was successful. Based on community needs and market considerations, there is a demand for community-scale homeownership.
4. We encourage DHCD to increase the subsidy per unit limits. DHCD’s expressed willingness to increase these limits to \$125,000 per unit is welcomed and appreciated. We ask that DHCD permit higher per unit subsidy limits to no greater than \$150,000 per unit under specific and

limited circumstances. For example, DHCD could allow greater subsidy per unit when a developer can demonstrate three things: first, that local and other resources are limited, despite good-faith efforts to secure them; second, that the project is able to achieve demonstrable benefits (to the community or to populations) that go beyond those typically achieved in affordable housing development; and third, that the developer demonstrates that it is requesting the minimum amount of subsidy necessary to successfully develop and operate the project. We think the higher subsidy amounts are most likely to be needed on rental projects which cannot support as much debt – homeownership projects are better able to meet the \$125,000 subsidy limit. It's very important to recognize that even with \$150,000 in subsidy, these projects are using fewer taxpayer dollars than larger projects that rely on tax credits and soft debt subsidy so the Commonwealth can actually produce more total units even with the higher cap.

5. DHCD should establish underwriting guidelines for community-scale projects that are commensurate with the risks (and benefits) appropriate to such projects. These could include some combination of the following: revised design and construction requirements; less stringent bonding requirements for well-capitalized contractors with good track records; a re-assessment of reserve requirements; and, if developers are required to submit an application for a project in multiple funding rounds, less frequent submissions of market studies, environmental inspections and appraisals in subsequent rounds.
6. In terms of timing, it is important that the announcement of a CSP rental round coincide with the announcement of the rental round for tax credit (and other non-CSP) projects (even if the deadlines are different so that DHCD staff can stagger the workload of reviewing applications). This would avoid uncertainty so that sponsors of community-scale projects will know that there is a funding round tailored to projects of this scale, and should submit their project applications only through that "door".

We understand there are many factors to consider as we move forward on this. We would welcome the opportunity to meet with you (along the small group of our Members who were involved in earlier discussions on this). If you feel that one-to-one conversations would be best for moving this forward, that is of course fine with me as well. Please let us know how we can best support this effort.

As always, feel free to contact me to discuss this. Again, thank you for your commitment to funding quality projects of all scales, in communities across the Commonwealth.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Kriesberg". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joe Kriesberg
President

Cc: Kate Racer, DHCD