Missed Opportunities: Funding Housing Through the Community Preservation Act

June 2023

Tufts University | Jonathan M. Tisch College of Civic Life

The Center for State Policy Analysis

GBREB Greater Boston Real Estate Board

Executive Summary

In its first two decades, the Community Preservation Act (CPA) has helped cities and towns across Massachusetts pursue thousands of innovative projects, making it an engine of local activity in every corner of the Commonwealth.

At its core, CPA is a partnership between municipalities and the state. And this partnership has three basic parts:

1) Cities and towns agree to introduce a surcharge on local property taxes;
2) The state provides some matching dollars; and
3) The money supports a limited range of activities, namely preserving open space, investing in recreation, protecting items of historic significance, and bolstering affordable housing.

Note, however, that there is some friction among these priorities. Efforts to protect open space or expand public parks can impede the development of much-needed housing by reducing the amount of land available for new construction.

And in the current moment, when housing affordability is a leading policy concern, with lawmakers actively looking to reduce zoning restrictions and accelerate new construction, the more preservationist goals of CPA have lost some of their urgency.

"There aren't enough homes, simply put," is how Massachusetts Governor Maura Healey has put it. And polling consistently finds housing costs among the top concerns of voters in the state.

CPA was not principally designed as an engine for housing development. Indeed, when it first passed more than two decades ago, it was touted as "a powerful new weapon in the fight to protect our communities from suburban sprawl" and "an important step to stem the tide of unplanned development that is sweeping Massachusetts."

But it's a vital and flexible program that — with the right tweaks — could become a critical tool in the effort to expand housing options for families.

To better understand the real-world impact and future potential of CPA, we at the Greater Boston Real Estate Board have partnered with the Center for State Policy Analysis at Tufts University on a thorough assessment of the program, with a particular focus on affordable housing.

Key Takeaways

1

Only one in five CPA projects is dedicated to affordable housing, and less than one in 20 involves the creation of new homes. Historic preservation is the most common type of CPA project.

2

Despite a statutory requirement that cities and towns devote at least 10 percent of their CPA dollars to housing, many have spent less than that amount. This is particularly true of Massachusetts' suburbs.

3

More and more towns are **moving CPA dollars into local housing trusts**. This can be a sound strategy to support long-term planning but the lack of enforcement of current reporting requirements makes it difficult to confirm that towns are spending money wisely and meeting reasonable goals.

4

CPA funds can help spearhead new development and promote housing construction by filling funding gaps. But CPA-backed housing efforts are **not always well integrated into broader town planning.**

5

With clearer expectations around housing spending and new incentives to support affordable housing, the state could make CPA a **valuable part of the solution to our statewide housing crisis.**

In the sections that follow, we examine these issues in greater detail. We also provide background on CPA, summarize our methodology, and suggest ways the state could better align the program with today's most pressing needs.

Background on the Community Preservation Act

The Community Preservation Act is a linchpin of community-oriented policy in Massachusetts.

Since its initial passage in 2000, more than 190 cities and towns have joined the program, including regional hubs like Boston and Worcester, gateway cities like Fall River and Pittsfield, wealthy suburbs like Weston and Hingham, and rural hamlets like Leverett and Goshen.

Collectively, these cities and towns have pursued over 15,000 projects representing a total statewide investment exceeding $2.7 billion.

There are many reasons CPA has proved such a widespread success. Among them:

- **Local buy-in is high because participation is voluntary** and requires a vote by residents; if they are unhappy with their decision, they can later withdraw- and no community has taken this step.

- While all municipalities that join CPA **agree to raise additional money through the property tax, the size of this increase can vary.** More skeptical towns can introduce smaller property tax surcharges; more eager towns larger ones.

- In exchange for joining CPA and raising new local revenue, **towns get additional CPA dollars from the state.** These funds come from a fixed fee on real estate transactions and other documents filed with the state's Registries of Deeds, occasionally supplemented by appropriations from the general fund.

- **CPA limits, but does not dictate, how cities and towns spend their money.** As noted, the money must be used for historic preservation, affordable housing, recreation, and open space. And there's a further requirement that housing, historic preservation, and open space must each receive at least 10 percent of total CPA revenue. But this still gives towns wide latitude on whether to build housing, set aside conservation land, improve parks, expand sports facilities, preserve buildings, hire consultants, introduce housing vouchers, or a great deal beside.

As a testament to the ongoing relevance of CPA, several municipalities joined the program in 2022, and several others are slated to vote on adoption in 2023.

Affordable Housing in the Community Preservation Act

Affordable housing is one of the pillars of CPA, but there is a clear and longstanding tension between this commitment to housing and the other facets of the program, like historic preservation and the protection of open space.

Every time you build a park or set land aside for conservation, you're reducing the amount of space available for housing — and driving up the price of homes in your community.

And judging from the way most municipalities actually apportion their CPA funds, housing has never been a leading priority within the program.

Housing projects have consistently made up less than 20 percent of all CPA activities, whereas historic preservation accounts for more than 40 percent and open space and recreation together comprise nearly the same share.

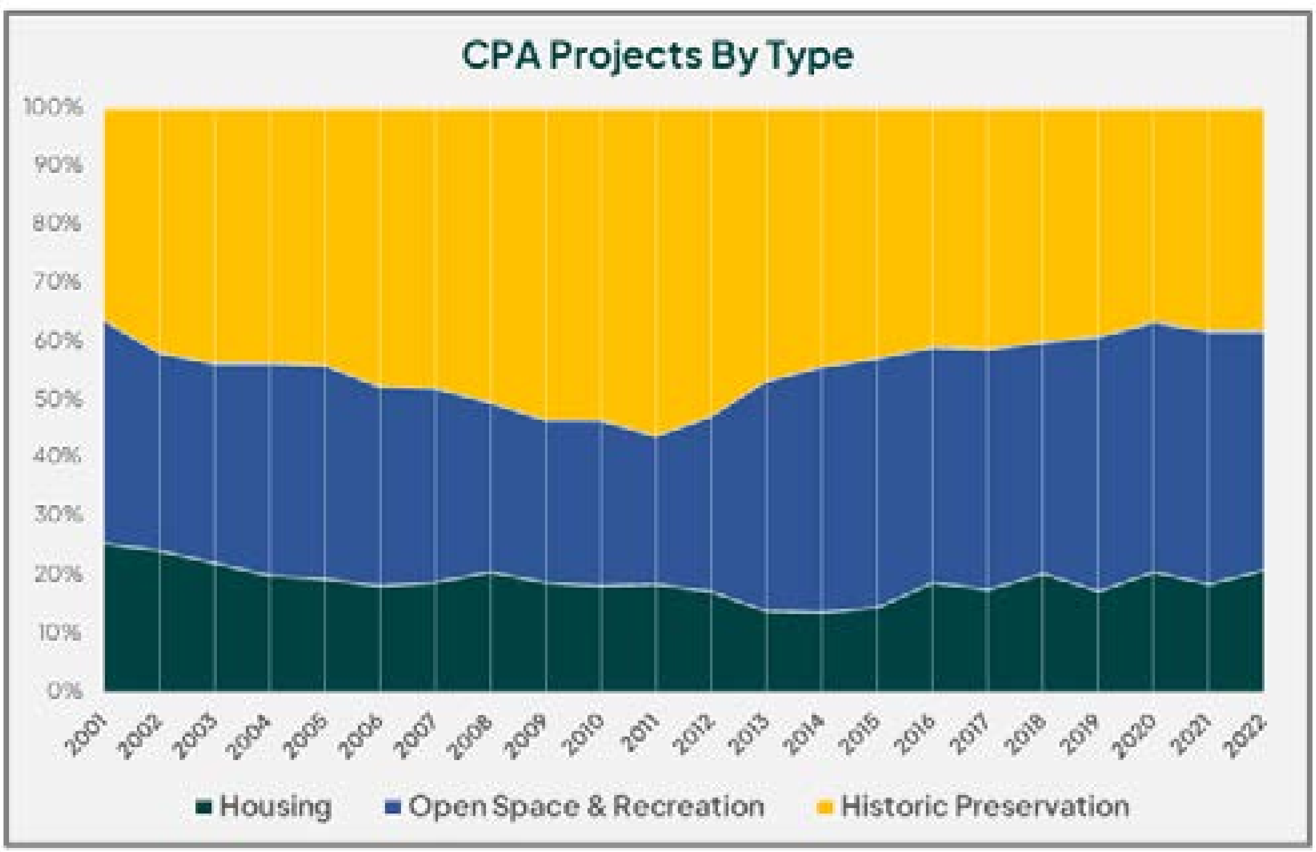
Things look a little different if you focus on dollars, as housing projects tend to be more expensive than other CPA efforts. In some years total spending on housing projects can exceed 40 percent of all CPA dollars.

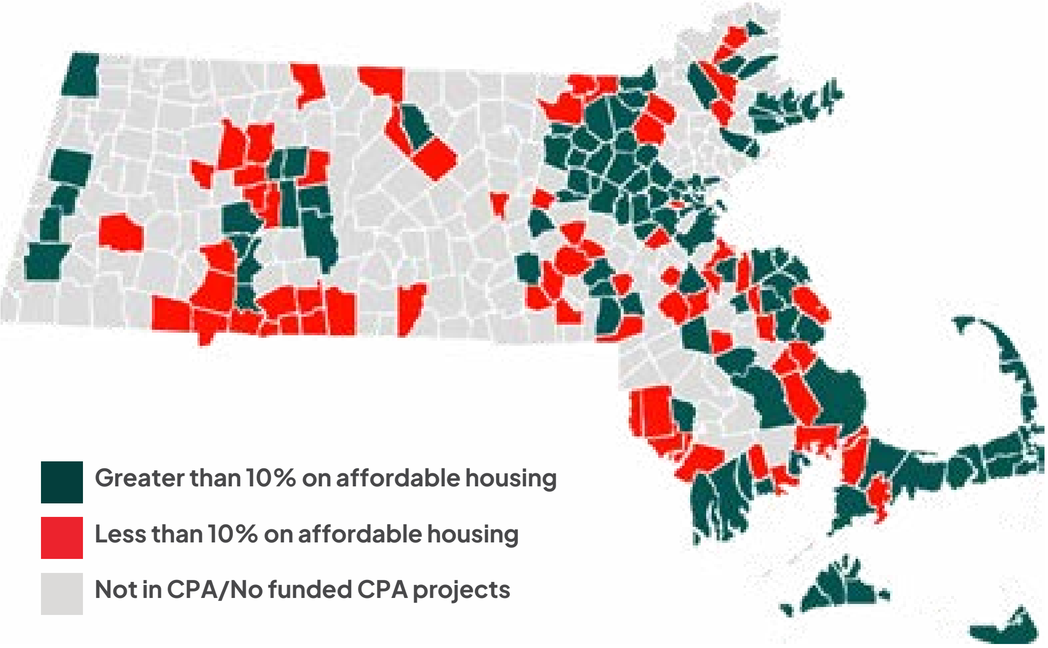
But these spending figures are distorted by the actions of bigger towns and cities. Over 80 percent of all CPA spending in Cambridge, for instance, has gone to housing — by far the highest level in the state; nearby Boston, Chelsea, and Somerville have all spent more than half their CPA dollars on housing.

Meanwhile, the typical municipality devotes only 14 percent of CPA spending to housing; half of towns spend more, while half spend less.

In fact, despite the statutory requirement that cities and towns devote at least 10 percent of their CPA dollars to affordable housing, it appears that 70 municipalities have spent less than that amount from the time they joined the program through the latest fiscal year.

It's possible that these municipalities are technically complying with the 10 percent requirement by putting earmarked CPA dollars in a dedicated reserve account for future housing spending. But there's no clear mechanism to ensure that they ever spend that money. And right now, these towns are



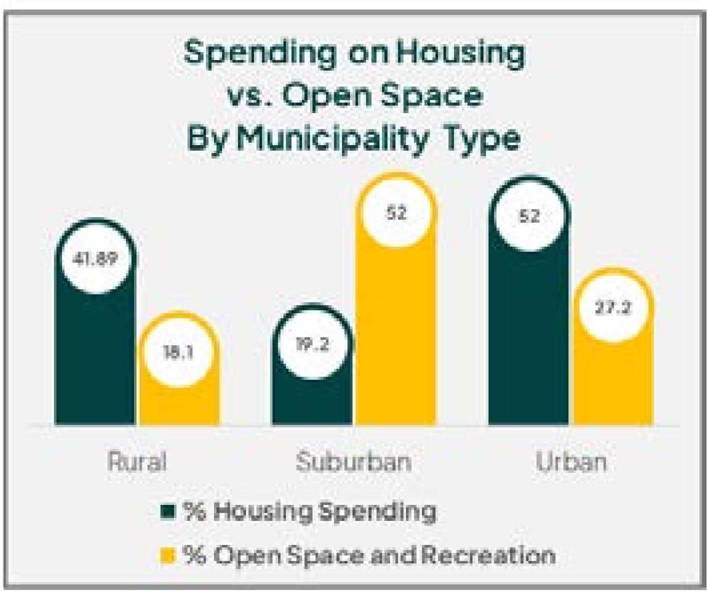


***Despite the statutory requirement** that cities and towns devote at least 10 percent of their CPA dollars to affordable housing, it appears that 70 municipalities (indicated in red) have spent less than that amount from the time they joined the program through the latest fiscal year.*

missing out on the opportunity to invest in affordable housing through CPA.

CPA spending on affordable housing is especially limited in suburban communities. Whereas urban areas devote more than 50 percent of their CPA spending to housing — and rural areas more than 40 percent — suburbs spend less than half that amount, with the bulk of their CPA dollars going to open space and recreation projects.

If you think of CPA as a mechanism to help cities and towns advance their own priorities — and if suburbs are less interested in housing development — then this divide between urban, suburban, and rural areas may not be altogether surprising. But the fact that rural areas are investing in affordable housing suggests that things could be different in suburbs as well.



With the right adjustments, CPA could help ensure that all towns in Massachusetts are working in concert to address housing affordability.

New Housing

There are a lot of ways for cities and towns to invest in housing via CPA, most of which don't involve building new affordable units.

A random sample of projects across the Commonwealth shows that municipalities take a wide array of different approaches, including:

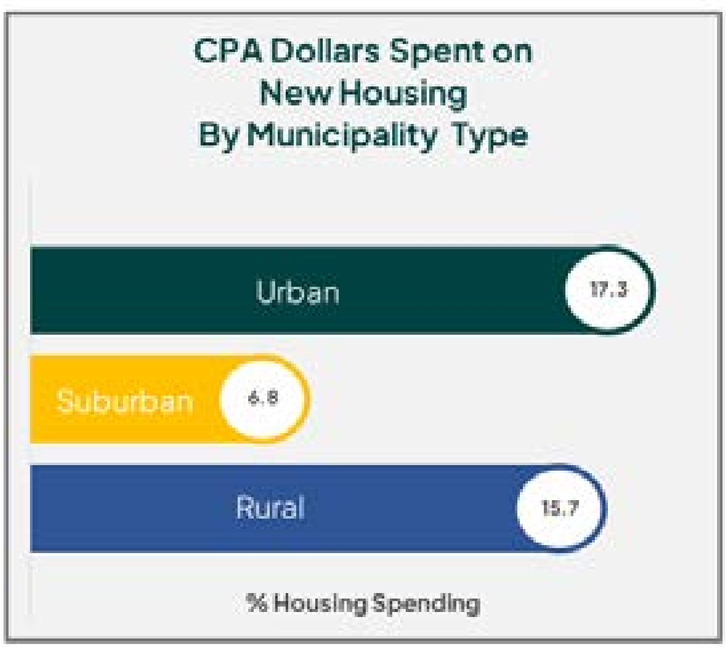
- Buying land for future construction.
- Providing direct assistance to low-income renters and homebuyers.
- Purchasing existing properties for use as affordable housing.
- Hiring consultants to develop housing plans.
- Hiring new staff to help run local housing programs.

Since the program's debut, less than 5 percent of CPA projects have involved the construction of new housing. And here again there are some marked differences among urban, rural, and suburban communities, with urban areas devoting vastly more CPA dollars to new housing.

In a potentially auspicious shift, recent years have seen an uptick in new housing investment through CPA. The driving reason is not because towns are pursuing more construction projects; it's because the typical housing project is getting bigger and more expensive.

After the housing crisis of 2007-2009, the average CPA housing project involved just one or two units, whereas today it involves nearly seven.

When thinking about how CPA can best be used to support affordable housing moving forward, it's important to note a few open questions and issues:



- CPA rarely provides enough money to fund a full construction project. On average, new units supported through CPA get about $30,000 in direct funding, which is well below the real development cost. Instead, CPA dollars are generally part of a larger funding pool. That can still be important, or even vital, as CPA dollars can provide critical gap funding, or make projects eligible for state and federal support, or generally help defray costs that might otherwise hold back development. But there may also be cases where CPA funds are a "nice to have" input for projects that would happen anyway.

- CPA-driven development isn't always well-integrated into town planning writ large. Some towns with ambitious housing plans, like Wareham, aren't using CPA to help advance their efforts; other municipalities, like Northampton, have made regular use of CPA to support housing but don't seem have to have issued a particularly large number of housing permits. One possible explanation for this mismatch is that CPA spending decisions are generally overseen by a dedicated CPA body, whose priorities and focus may sometimes differ from other town planning groups or councils.

- Judging from the records, it seems like towns occasionally double-count the production of housing, claiming the same number of new units

— at the same address — across multiple CPA reports. More broadly, it's important not to assess overall affordable housing production in Massachusetts by simply adding up units produced via CPA with those in other programs like 40b, as some street addresses appear in multiple lists.

Housing Trusts

Hovering over all these questions about affordable housing and CPA is a kind of black hole, a place where CPA housing dollars slip beyond our ability to track them, namely into municipal housing trusts.

One thing cities and towns can do with their CPA housing money is put it into a trust for future use. And in principal this is a perfectly reasonable approach, affording cities and towns the time to identify opportunities and build a cache of capital sufficient for large-scale development.

However, current reporting requirements for housing trusts aren't providing the kind of information necessary to ensure that trust dollars are being used efficiently.

Cities and towns need to report any transfer of CPA dollars into a housing trust — including the amount of money being transferred. But they don't need to specify exactly how this money will be used in future.

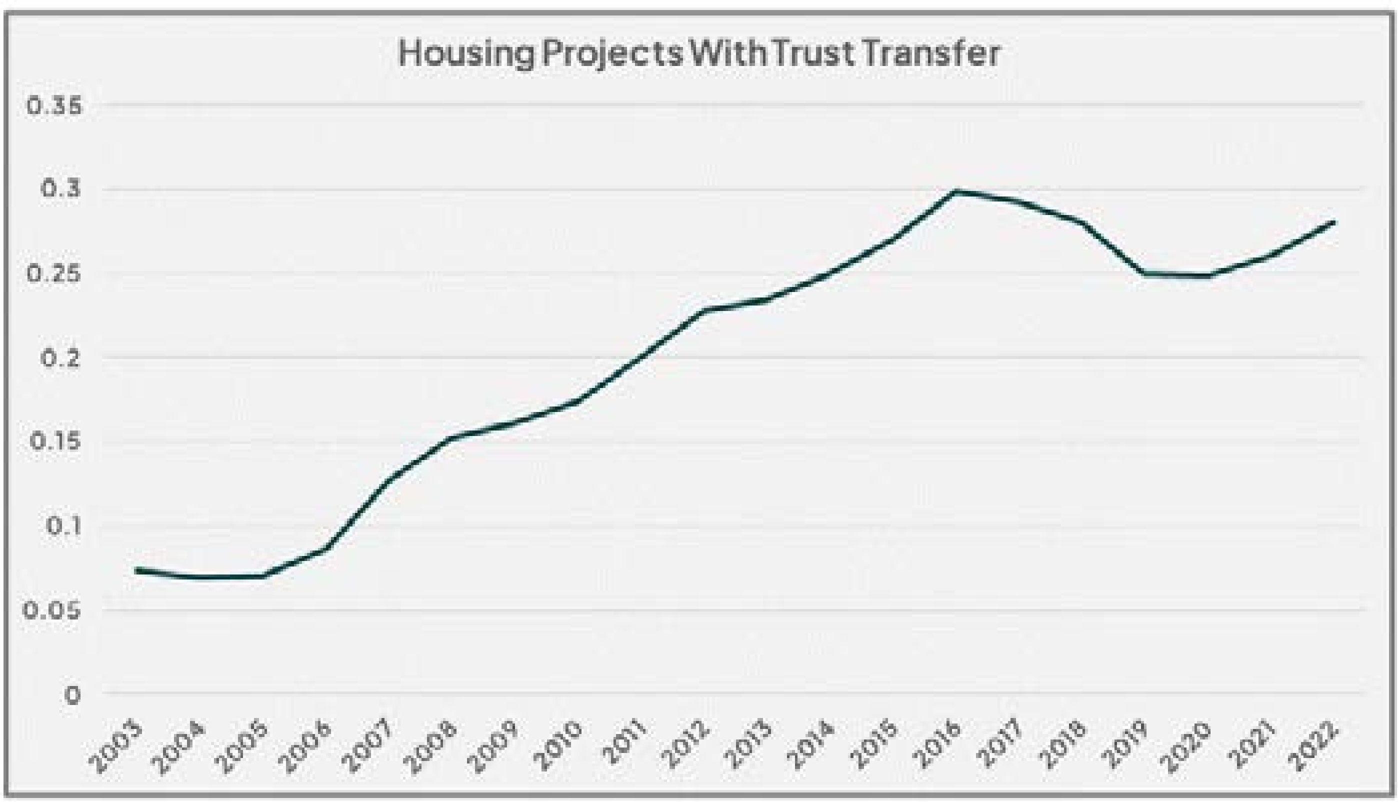
Later when housing trusts do commit these dollars, they are supposed to report that spending to CPA authorities and record it in the CPA reporting system. However, records to date show dozens of cities and towns that have moved CPA money into housing trusts, with no information about how those dollars have been used, if at all.

Now, this doesn't necessarily mean towns are shirking their responsibility or misusing CPA money. They could easily be spending their housing trust dollars to support affordable housing — without recording it in the CPA reporting system.

But it's also possible that housing trust money is just sitting in municipal bank accounts. Right now, the state lacks a consistent, enforceable process to track what's actually happening on the ground.

What we do know is that municipal housing trusts have gotten much more popular over time.

Nearly 100 cities and towns have now put CPA dollars into housing trusts. In recent years, one in every four CPA housing projects has involved a trust transfer.



Policy Options

By funding innovative projects, advancing local priorities, and consistently attracting new cities and towns, CPA has proved its value across its first two decades.

And while the needs of our communities have changed over time, with the right adjustments CPA could remain a driving force for statewide equity and economic prosperity in the decades to come.

Right now, the most urgent challenges facing the state include rising housing costs and inadequate construction.

And for these, CPA is a tool already at hand, one that towns aren't using to its full potential but that could prove invaluable with some honing.

CPA is well designed to provide flexible incentives and align municipal actions with state interests — via the state funding match. Matching dollars are a classic public policy carrot, supporting towns as they confront the urgent challenges of the moment.

To rebalance CPA for our current moment, the state could:

1. **Offer additional state funds** for cities and towns that commit at least 20 percent of their CPA dollars to affordable housing (or 10 percent to support new housing units). Municipalities meeting these higher thresholds could also be given priority access to state grants and subsidies.

2. **Ensure that all municipalities are meeting the minimum requirement** to devote at least 10 percent of CPA revenue to affordable housing. Cities and towns falling below this threshold may need to support additional "make-up" housing projects moving forward.

3. **Enforce reporting requirements** for housing trusts, including annual spending summaries and concrete project details.

4. **Create a dedicated housing assistance team** at the state Department of Housing and Community Development (DHCD), with the express purpose of helping smaller towns handle technical challenges like scoping, bidding, bonding, and project management.

5. **Encourage cities and towns to better integrate CPA spending** with long-term plans around zoning and construction. Subsidized technical assistance from DHCD could be valuable here.

Conclusion

The Community Preservation Act has been — and continues to be — a policy success story, proof that state-municipal partnerships can yield valuable results. Not only does CPA offer meaningful state resources to cities and towns, it leverages municipalities' unique ability to assess the local landscape and identify the most impactful projects.

Right now, Massachusetts needs this local expertise to help address a defining challenge: the burden of high housing costs and insufficient construction.

With small tweaks, improved reporting, and a commitment to enforce existing rules, CPA could be a key, locally driven part of our collective solution.

Methodological Notes

The principal data source for our analysis of CPA projects comes from the CPA reporting system overseen by the Massachusetts Department of Revenue.

Canceled project were ignored and spending was allocated to various categories (housing, historical preservation, recreation, and open space) in a way that included bonded money and funds listed as "tbd". For projects that cross categories, we assumed that the largest share of unspecified dollars was committed to housing.

Information about CPA revenue comes from a separate system, also overseen by the Department of Revenue.

Comparisons between housing production through CPA and the overall housing stock involved additional data from the decennial census and a database of permits overseen by the Metropolitan Area Planning Council (MAPC).

We used a consolidated version of MAPC's classification system for the division of municipalities into urban, suburban, and rural types. Additional sources are noted via inline links.

Missed Opportunities: Funding Housing Through the Community Preservation Act was compiled in June 2023 by the Center for State Policy Analysis with assistance from the Greater Boston Real Estate Board.

GBREB
GREATER BOSTON
REAL ESTATE BOARD

Tufts UNIVERSITY | Jonathan M. Tisch College of Civic Life

THE CENTER FOR
STATE POLICY
ANALYSIS