PARADOXES OF PUBLIC HOUSING: THE CASE OF MILLERS RIVER

After decades of crumbling faith in public housing in the United States, the ongoing affordability crisis has prompted renewed efforts across the country to reimagine how the public sector can directly provide housing.

This exhibit highlights a successful example of public housing development today: the renovation of Millers River, a 19-story tower for elderly and disabled residents with 300 apartments completed by the Cambridge Housing Authority (CHA) in Cambridge, Massachusetts in 2022.

A particular challenge CHA (the "other CHA" from the vantage point of Chicago) had to grapple with was its limited set of financing and policy tools imposed by federal and state regulations. When public housing authorities preserve and develop new housing today, they must often hand control to private partners in order to gain access to federal funding. This results in a number of paradoxes. On

the surface, what you see looks like new or renovated public housing. Scratch at that surface, however, and you'll discover that this is no longer public, but private affordable housing.

Like many other housing authorities, CHA partnered with private actors to renovate Millers River, originally constructed in 1972. But through a series of puzzling yet legal maneuvers, CHA ensured that it would retain control of the building and keep it affordable for its residents.

The story of Millers River is proof that the public sector can effectively provide affordable housing and exceptional architecture. It suggests that a new generation of public housing is possible. It is time to acknowledge the paradoxes highlighted in this exhibit so that public entities can directly fund, develop, own and manage public housing—for all.

ACKNOWLEDGMENTS

This exhibit is based on our article "The Case for Truly Public Housing," published in the journal *Places* in December 2022. It was prompted by encounters with Millers River on daily errands around Cambridge during its renovation. We soon learned that it was one of many exceptionally designed and maintained developments under the stewardship of the Cambridge Housing Authority. This led us to unpack how a public housing authority, an institution seemingly forgotten in conversations around the future of affordable housing, could pursue a project so complex. We hope our attempt to translate the lessons we've learned can spark questions about and build support for public housing.

We would like to thank Nancy Levinson at *Places* for her editorial guidance in shaping the article and Lisa Lee at the National Public Housing Museum for her trust in us to turn it into an exhibit. A special thank you to those who provided critical feedback including Lawrence Vale, Damon Rich, Rebecca Hirschberg, Axel Kilian, and Carole Dunham.

We are grateful to CHA staff for sharing their insights and to residents of Millers River for allowing us to capture a snapshot of their lives. In particular, we thank Margaret Moran, Jim Stockard, Clara Fraden, Tonya White, Hilary Mochi, Adelino Vieira, Yaw Adjei-Koranteng, Eddie (Iman) Thing, Tevin Crocker, Charles Prater, Joycelyn Hollis, and Bill Salter.

Susanne Schindler and Chris Moyer

BIOGRAPHIES

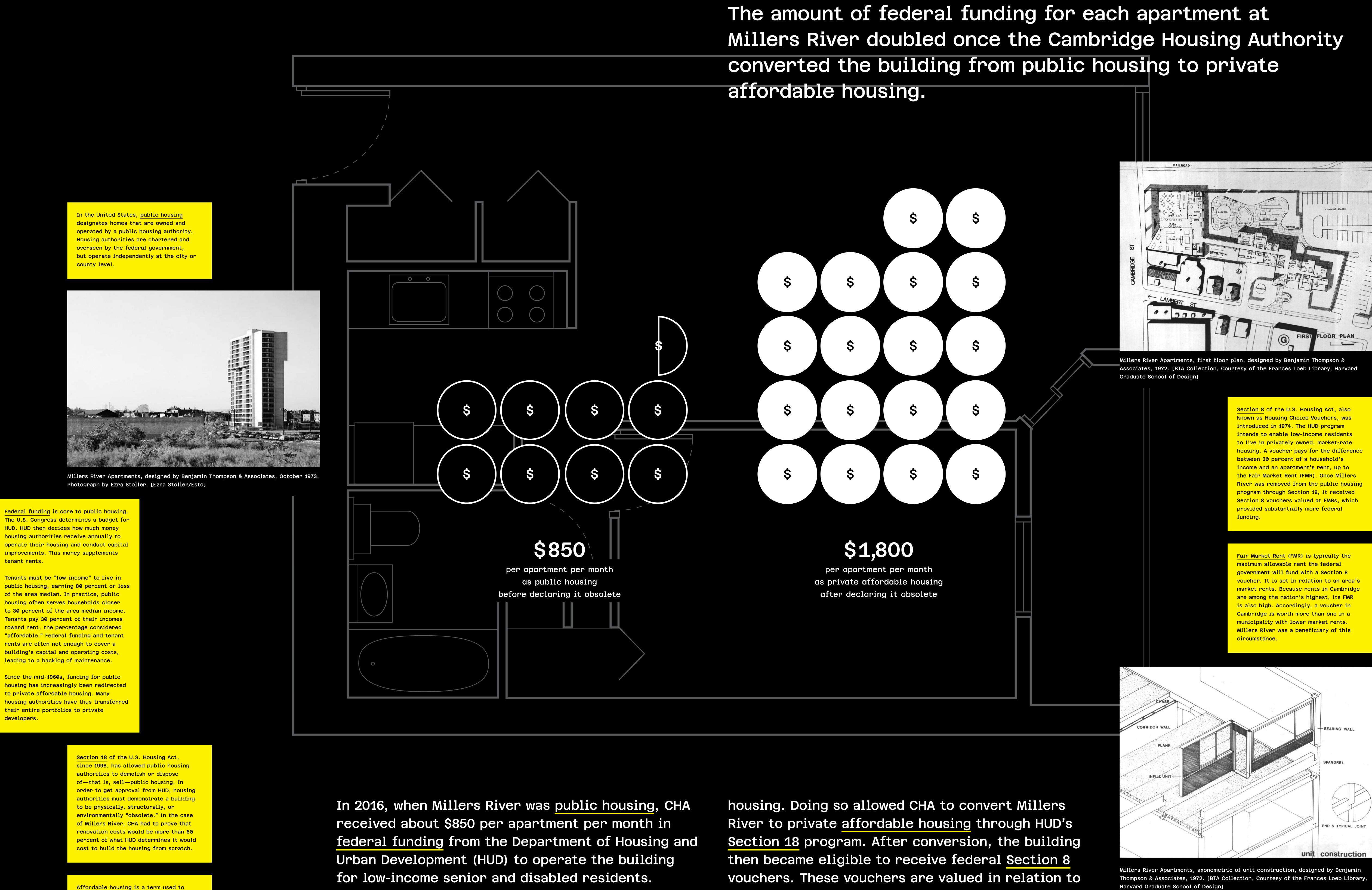
Susanne Schindler is an architect, historian, and educator dedicated to exploring the intersections of policy, finance, and design in housing. She lives in Cambridge, Massachusetts.

Chris Moyer is a project manager in the Planning and Development Department at the Cambridge Housing Authority. While studying architecture and urban planning, he became interested in the role of housing authorities as entrepreneurial developers that are uniquely accountable to the public at large.

EXHIBITION CREDITS

Curators: Susanne Schindler and Chris Moyer Exhibition Design: MTWTF
Video: Ryan Clancy

DECLARING MILLERS RIVER OBSOLETE IN ORDER TO SAVE IT



In order to increase federal funding, CHA declared Millers River "obsolete." This means the building was designated as unsuitable for habitation as public

This was insufficient to cover maintenance and other

After decades of underfunding, Millers River needed

expenses, even with the addition of tenant rents.

wholesale renovation.

the area's Fair Market Rent.

The maneuver allowed CHA to more than double federal funding to \$1,800 per month per apartment. For the 300 units in the building, this meant an additional \$3.4 million per year—a paradox, given that CHA and HUD had just deemed the building obsolete as public housing.

describe housing reserved for

low- and moderate-income households

who pay no more than 30 percent of their

by private for- or non-profit entities, not

income toward rent. Affordable housing

is generally developed and managed

housing authorities.

TRANSFERRING OWNERSHIP IN ORDER TO RETAIN SONTROL



new owner. A private owner would be able to benefit from federal funding for affordable housing unavailable to a housing authority like CHA. This funding includes Section 8 vouchers and tax credits.

In partnering with the private sector, housing authorities typically hand the building, its renovation, operation of the building and secure high-value and future management to a private entity. In order to Section 8 vouchers that fund privately owned retain these tasks in-house, CHA has instead created affordable housing. The paradox is that CHA non-profit affiliates. CAHC, Essex Street Management, transferred Millers River to an affiliate entity in Inc (ESMI), and Kennedy Management, Inc (KMI) are its order to obtain federal funding that it could not primary affiliates.

housing portfolio in 2016, it handed ownership to CAHC. On paper, CAHC is independent from CHA. In reality, the two share the same governing Board of Commissioners.

This maneuver enabled CHA to retain day-to-day access as a housing authority.



Inc. [Chris Moyer]



[Ed Wonsek Art Works]

PARTNERING PRIMATELY IN ORDER

to access sufficient federal funding for Millers River's renovation. CHA chose the bank Wells Fargo because it offered the most money.

The Low-Income Housing Tax Credit (LIHTC) program helps finance 50,000 to 60,000 new housing units per year across the U.S. About one-quarter of all new multi-family apartments, affordable and market rate, are financed by LIHTC annually.1 LIHTC can provide much needed funding for public housing redevelopment or renovation projects. However, partnering with private investors adds complexity and cost due to layers of contracts and compliance regulations. In contrast to public housing, LIHTC housing is required to stay affordable only for a limited time. In addition, tenant advocates have raised concerns about the lack of transparency regarding management practices in LIHTC housing, such as unexpected rent increases and eviction processes.

Urban Institute, July 11, 2023. www.urban.org/urban-wire/LIHTC-providesmuch-needed-affordable-housing-not-enough-address-todays-market-demands.

The allocation of tax credits takes place each year by the U.S. Congress. The Internal Revenue Service (IRS) then allocates the credits to states based on their population. There are two types of tax credits. 9% tax credits typically fund new construction and cover about 0 percent of total development costs. 4% tax credits usually fund renovation projects and cover about one-third of total development costs. As a renovation project, Millers River used 4% credits.

The awarding of tax credits is done by housing finance agencies at the state level. 9% credits are competitive whereas 4% credits can be awarded on a first come, first serve basis. To apply, a developer must submit plans for a specific project. Projects must be "shovel-ready" with full designs and zoning approved. Developers often apply multiple times before receiving an award. CHA was awarded \$61 million in tax credits for Millers River in

Claiming tax credit benefits takes place over the course of ten years. It begins once the building is completed and residents have moved in. As owners of the LLC, ESMI and Wells Fargo are required to submit evidence of the project's cost to the IRS. During this ten-year period and an additional five years, the building must remain affordable to low-income residents. After fifteen years, Wells Fargo can exit the partnership.

Service Claimed

United **Internal** Allocated Massachusetts States State Government Revenue **Housing Agency** Congress

Essex Street Management Inc. (ESMI)

Awarded

Converted

to Equity

ESMI Ownership

Cambridge

Housing Authority

Millers River

00.01%

99.99%

Wells Fargo Ownership

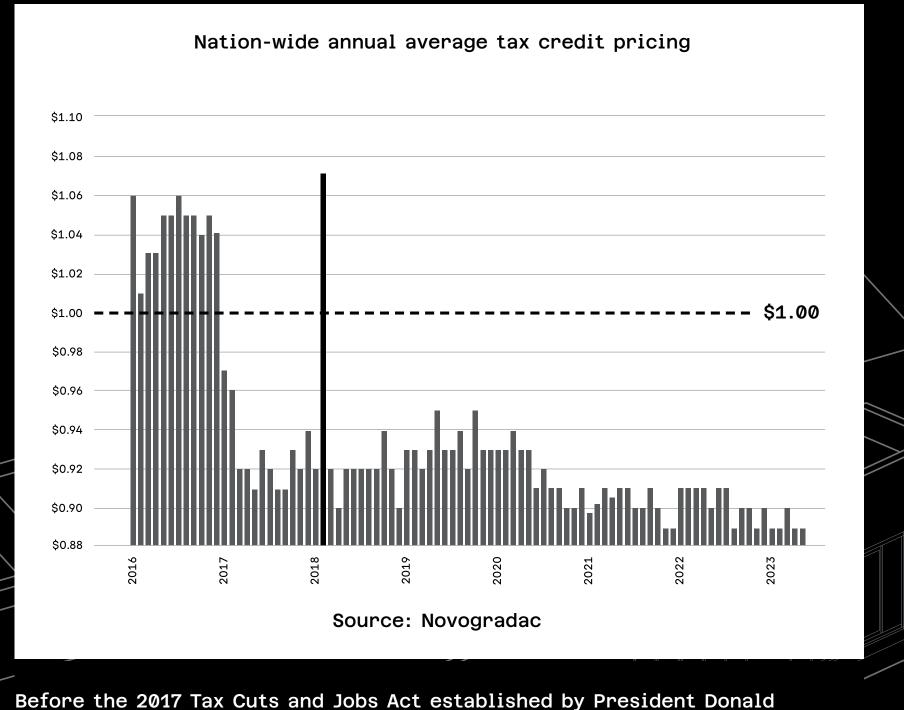
Wells Fargo

The sale of tax credits happens by the developer once the award is in hand. A developer sells the tax credits to an investor, often a bank or insurance company. Each \$1 of credit that an investor purchases lowers the investor's tax liability, or amount of taxes owed to the federal government, by \$1. This creates the "equity"—capital or cash that pays for a portion of the project's development costs.

CHA created a partnership with a private investor in order

Sold

The price of a tax credit is not fixed. When investors have high profits and thus high tax liabilities, they are often willing to pay more than \$1 per dollar of tax credit. The credits also allow investors to claim additional tax benefits, including financial losses from a development project's depreciation over time. When investors have lower profits and taxes owed, they typically offer less money per tax credit.

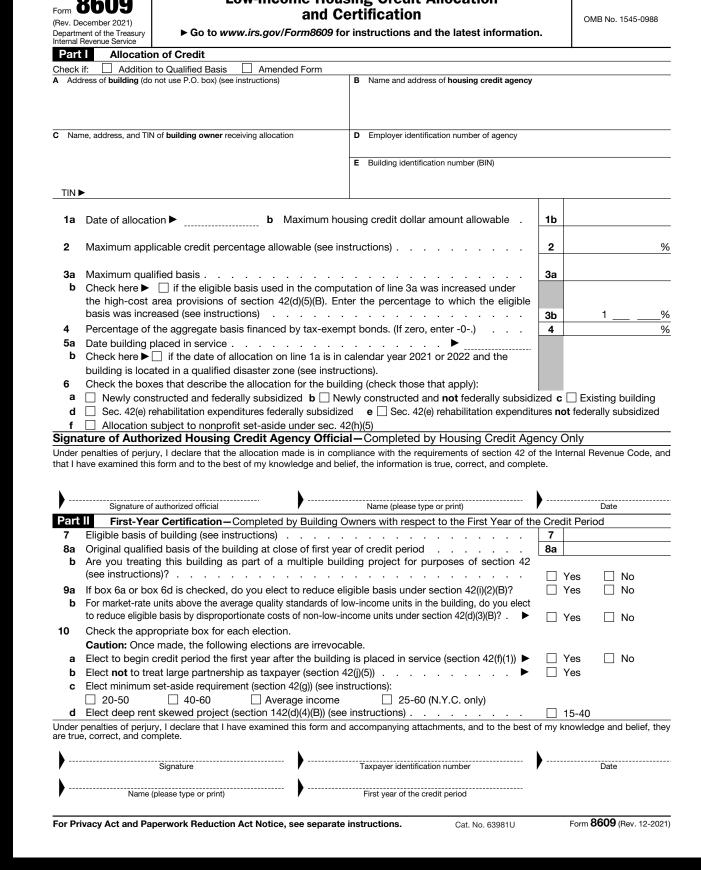


Trump, investors were willing to pay, on average, more than \$1 per dollar of tax credit. In 2018, when CHA and Wells Fargo negotiated credit pricing for Millers River, the average price dropped to \$0.92. However, Wells Fargo offered CHA pricing at \$1.07. Cambridge's expensive housing market and CHA's reputation lowered Wells Fargo's risk, likely increasing their offer. CHA also structured the deal to allow Wells Fargo to claim a high tax write-off in fifteen years. [Underlying graph from Novogradac.com]

used for capital or cash that is tied to an ownership stake. CHA sold \$66 million in tax credits to the bank Wells Fargo for \$71 million. This became the investor's cash contribution to pay for the renovation. It established to enable the LIHTC financing In contrast to loans, equity does not have

The LIHTC partnership is typically split between a "limited partner" and a "genera the general partner. It is responsible for general development decisions and owns 0.01% of the LLC. Wells Fargo is the limited partner. It has limited liability and operational decisions in the LLC and owns the other 99.99%. ESMI's share enables it to control the day to day perations of the building. Wells Fargo's share allows it to claim the tax credit

The tax credit becomes equity through a LIHTC transaction. Equity is the term also gave Wells Fargo an ownership stake in Millers River LLC, a partnership entity



Millers River LLC was required to submit Form 8609 to the IRS in order for Wells Fargo to begin claiming tax credit benefits. The form certifies the project's actual development cost. If the actual cost was less than anticipated, the investor receives fewer credits, leading to less equity for the project. [IRS]

Millers River required public funding to remain affordable after its renovation. This made the Low-Income Housing Tax Credit (LIHTC) program, the federal government's largest affordable housing program, critical for the project. However, LIHTC does not directly fund developers. It instead relies on private corporations to invest equity, or money, in development projects. In exchange, corporations receive tax credits to decrease their taxes. Developers like CHA must thus partner with private investors to obtain this public funding to build or renovate affordable housing.

The LIHTC program is extremely complex. The federal government first allocates tax credits to states. States then award the credits to development projects. In order to renovate Millers River, CHA

claim the benefit of lowering its taxes. These maneuvers allowed CHA to access funding, but they added time and cost to the development process. The paradox is that tax credits look like private investment and seem to come at no cost to the public. In reality, they cost the federal government \$13.5

applied for and received \$66 million in tax credits. It

then sold the credits to Wells Fargo for \$71 million.

ESMI, one of CHA's non-profit affiliates, and Wells

Fargo created a partnership entity named Millers

River LLC through which to own the building. Once

the renovation was complete, Wells Fargo was able to

1 An Introduction to the Low-Income Housing Tax Credit, Congressional Research Service, April 26, 2023. https://sgp.fas.org/crs/misc/RS22389.pdf

billion per year in lost tax revenue.1

Secretary of the Commonwealth of Massachusetts Business Entity Summary ID Number: 001351163 Summary for: MILLERS RIVER LLC Entity type: Domestic Limited Liability Company (LLC) Date of Organization in Massachusetts: Date of Revival: The name and address of the Resident Agent:

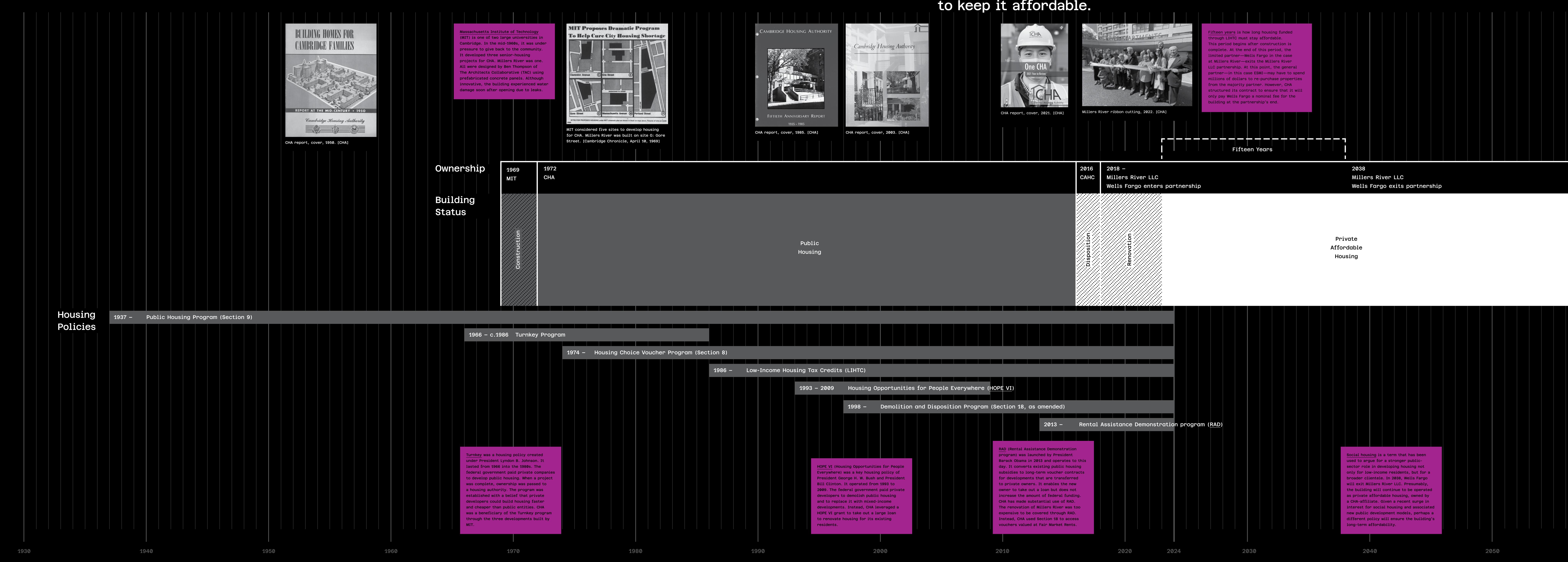
Both ESMI and CHA are included on this entity summary form that records the creation of Millers River LLC in 2018. A separate LIHTC Partnership Agreement between ESMI and Wells Fargo provides the contractual terms for the investor's involvement in the LLC. [Commonwealth of Massachusetts, Corporations Division]

INCREASING COSTS AND DEBT TO MAXIMIZE CAHC owned Millers River. By selling the building to TAX CREDIT EQUITY Millers River LLC, an entity owned by Wells Fargo and ESMI, CHA was able to substantially increase development costs that are eligible for tax credits. This raised the amount of federal funding available for the renovation. An acquisition loan was provided by CHA to Millers River LLC to purchase the building from CAHC. However, CHA structured payments differently from a typical loan Funding Gap Rental Income where payments are due immediately. CHA is allowing payments to be made to the extent that there is income available from the building's operation, and it had to demonstrate that the loan could be fully paid. Payment can take place after Wells Fargo exits the LLC in fifteen years. The loan is beneficial to Wells Fargo Loans because it can claim the accruing interest as a tax write-off when exiting the LLC. The loan is beneficial to CHA as it rovides an additional layer of protection to ensure the building is returned to [Dietz & Company Architects] CHA's control since any future owner after Construction, Wells Fargo would be obligated to pay the Before Design, and **Acquisition Transaction** Cost to Renovate Financing Costs Millers River Tax Credit Matching funding sources and uses is a key tenet of development finance. To pay for the renovation, CHA depended mainly on loans and tax credit equity. The primary loan relied on Section 8 vouchers to cover interest and principal payments. As the building remained partially occupied during construction, rental income from Millers River Apartments, view of new facade installation, March 2020. Section 8 vouchers and tenant rents were also used to cover development costs. Millers River Apartments, typical floor plan of a one-bedroom apartment with balcony, 1972. [Millers River Apartments, original unit floor plan. _IHTC eligible basis corresponds to costs Courtesy of Dietz & Company Architects] for which a project can receive a tax credit award. Most development costs count toward the basis, including the cost to acquire, or purchase, a building. Other costs, like those for demolition, preparing financing costs, do not. Maximizing this Millers River cost \$146 million to renovate. This from CHA to Millers River LLC which can be repaid _included paying the architect, construction materials after Wells Fargo exits the LLC in fifteen years. CHA and labor, financing fees, and more. CHA had to retained ownership of the land in order to maintain match funding sources to these uses by assembling long-term control over the development. loans and tax credit equity. However, there was a funding gap of roughly \$10 million. This maneuver unlocked an additional \$10 million in apartment in which the balcony has been enclosed. [Dietz & Company tax credit equity for the project. The paradox is As a means to increase tax credit equity, CHA was that Millers River LLC needed to buy a building CHA able to boost the project's LIHTC eligible basis by already owned through its affiliate entity in order to access necessary federal funding. The building adding an acquisition cost. CAHC sold the building acquisition added costs only insofar as it added LIHTC to Millers River LLC for \$29.5 million, an amount eligible basis, and thus LIHTC funding to the project. determined by an independent appraiser. The purchase was primarily paid by an acquisition loan

NAVIGATING SHORT-TERM POLICIES TO STEWARD

A LONG-TERM PUBLIC RESOURCE

Public housing in the U.S. has transformed over its almost century-long history. Throughout these changes, CHA has used various policies to maintain control of its housing and to keep it affordable.



CHA has long harnessed housing policies intended to encourage private sector involvement in order to meet its public mission. Indeed, private partners' short-term interests have characterized the trajectory of Millers River since it was built.

In the late-1960s, the Massachusetts Institute of Turnkey program. Construction finished in 1972 and MIT had no long-term stake in the building.

Between the 1990s and 2010s, CHA pursued other programs focused on private-sector involvement like Housing Opportunities for People Everywhere (HOPE VI) and Rental Assistance Demonstration (RAD) to develop and modernize its housing. CHA's renovation of the fifty-year-old Millers River in 2022 funding for public sector developers envisioned again required private sector involvement, this time through social housing. Whatever may come, CHA will Technology (MIT) developed Millers River through the through the LIHTC program. Wells Fargo's involvement likely continue to steward housing at Millers River as in the project lasts just fifteen years. In contrast, a public resource. was soon defective, a possible result of the fact that CHA has a long-term interest in securing Millers River as affordable housing.

When Millers River must be renovated once more in the future, housing policies may look different, requiring more or less maneuvering with private partners. It may also take place in a changed landscape with stronger authority and direct public