

# **White Paper on Rural Housing Issues in Massachusetts**

**Findings of the Rural Initiative and  
Recommendations**

**December 2014**

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## **How MHP works**

MHP is a self-supporting public non-profit that works with state government and with business, civic, and community leaders to increase the supply of affordable housing across the Commonwealth.

MHP uses funds from the banking industry to provide long-term loans for affordable rental housing. Since 1990, MHP has provided over \$970 million in loans and commitments for the financing of nearly 20,000 units of rental housing.

MHP also offers a mortgage loan program that helps low- and moderate-income buyers purchase their first home. In 2013, MHP transitioned its SoftSecond Loan Program from a two-mortgage structure to ONE Mortgage, making it simpler for homebuyers and easier for lenders to administer. All told, these programs have helped over 17,000 low- and moderate-income families purchase their first home.

MHP's technical assistance programs help communities build housing and provide education, training, and research on affordable housing development and housing issues. Since 1990, MHP has provided support and technical assistance to over 300 communities in the Commonwealth.

## **Executive Summary**

### **Background**

This report, prepared by the Massachusetts Housing Partnership (MHP), documents the particular challenge of ensuring decent, safe, and affordable housing for residents of rural Massachusetts. We undertook this effort in collaboration with many partners and this collaboration, along with research, informed our recommendations. Housing is only one facet of any healthy and vibrant community. Massachusetts is currently experiencing a shortage of affordable housing in most of its communities, as documented in another recent MHP white paper, “Unlocking the Commonwealth.”

Our research has shown that many factors contribute to the complexity of the preservation and development of affordable housing in rural areas including geography and access to resources and opportunities. The need for a targeted, coordinated and holistic approach that includes economic development, transportation, health care, and education is essential to supporting rural communities so that they thrive, not just survive. Housing solutions alone will not be enough, but our intent is to start a conversation that brings together policy-makers, non-profit organizations, rural towns and residents to work toward a common goal of ensuring sustainable and vibrant rural communities.

### **Our approach and goal**

This white paper is the outcome of MHP’s Rural Initiative which:

- Conducted a listening tour across the state in rural regions, engaging with community stakeholders and rural service providers;
- Organized leaders of regional non-profits and housing networks, state officials and community organizations in a series of meetings to discuss needs and challenges, including two regional community forums on the Cape and in western Massachusetts;
- Reviewed existing literature and data on needs and housing challenges in rural areas;
- Researched best policies and practices from other states.

Our goal was to develop recommendations in response to the issues and challenges we observed that would contribute to the long term vitality and sustainability of rural communities through program and policy changes, particularly around housing.

Through research, collaboration, and community forums, we concluded: many rural residents struggle with housing affordability, and these housing challenges can vary by region; population changes are affecting current and future housing needs in rural areas; economic shifts, job losses, and unique real estate markets contribute to housing challenges; and geographic isolation and lack of public transportation places additional cost burden on low-income families in rural areas. Furthermore, our work confirmed that due to a lack of infrastructure and resources in many rural areas, it can be difficult to develop and preserve affordable housing. Our outreach has shown us that rural residents, municipal leaders, and community organizations have the political will to find a way to address these challenges but they need help. By implementing the following changes and programs at

the state level, rural areas will be better equipped to meet current and future needs and create vibrant, inclusive communities faithful to their character.

### **Recommendations**

1. Create a State Office of Rural Policy to function as a research and policy clearinghouse for issues critical to the health and welfare of our rural communities, including housing, economic development, health care, transportation, and education
2. Encourage, facilitate and support regional collaborations to increase housing affordability
3. Create a funding set-aside and a streamlined approval process for rental developments of less than 20 units that are too small to utilize Federal Low Income Housing Tax Credits.
4. Adapt the state's Community Development Block Grant program (CDBG) to better serve rural communities through changes in the application and scoring process that are less burdensome and facilitate additional regional collaboration
5. Fill gaps in existing CDBG-funded housing rehabilitation programs to better serve the needs of rural homeowners
6. Support the upgrade and installation of public water and sewer systems in rural communities through the existing MassWorks program and through development of new financing mechanisms.

## Introduction

“Rural” doesn’t initially come to mind when we think of Massachusetts. In fact, a substantial part of our state has many characteristics of traditionally rural areas, including low density development, towns with small populations, woodlands and farmland. Rural communities from Provincetown to Williamstown provide some of the Commonwealth’s great natural and human resources, from the National Seashore to small-scale farms. Today, these communities face a range of challenges that threaten a way of life that has been cherished by many generations of Massachusetts families and has drawn visitors to our state from across the globe.

In the course of MHP’s work with residents and leaders in rural communities, we found that many feel there are two states of Massachusetts: the rural areas in which they live and Greater Boston. Many people expressed frustration, that when it comes to determining which regions get resources to support critical needs, Greater Boston dominates the discussion because it is the state’s economic center and seat of government. Over the past several years, state government has also developed special programs and allocated funding to address challenges in large, formerly industrial communities known as “Gateway Cities.” Not surprisingly, topics such as job creation and retention, transportation, education, and health care tend to focus on areas of the state with the greatest population density. While everyone acknowledges that Greater Boston and the Gateway Cities should get their due share, many feel that state programs and policies don’t always account for the needs and challenges in rural areas.

MHP’s response to these concerns from our respected community partners was to undertake a “Rural Initiative” and for the past year we have:

- Conducted a listening tour across the state in rural regions, engaging with community stakeholders and rural service providers;
- Organized leaders of regional non-profits and housing networks, state officials and community organizations in a series of meetings to discuss needs and challenges, including two regional community forums on the Cape and in western Massachusetts;
- Reviewed existing literature and data on needs and housing challenges in rural areas and;
- Researched best policies and practices from other states.

Our outreach and research has led to this white paper, which includes a compilation of the findings from our work and policy and program recommendations for state government officials, legislators, local governments and community members.

## How do we define rural Massachusetts?

“Rural” can be defined in many different ways but rural America is usually characterized by low density, remote location, and the importance of agriculture. Population, density, commuting patterns, and location relative to an urban area are all measures that various federal agencies, such as the Census Bureau and the United States Department of Agriculture use to define rural. For purposes of this report, we chose to use the definition employed for the 2013 Massachusetts Rural Access Commission report. The commission was established to

examine the problems associated with health and social service delivery in the state’s most rural areas, and to provide recommendations for improvement. Their final report acknowledges the many ways of defining rural, and used a density threshold to categorize rural and non-rural municipalities, defining areas with fewer than 500 residents per square mile as rural.

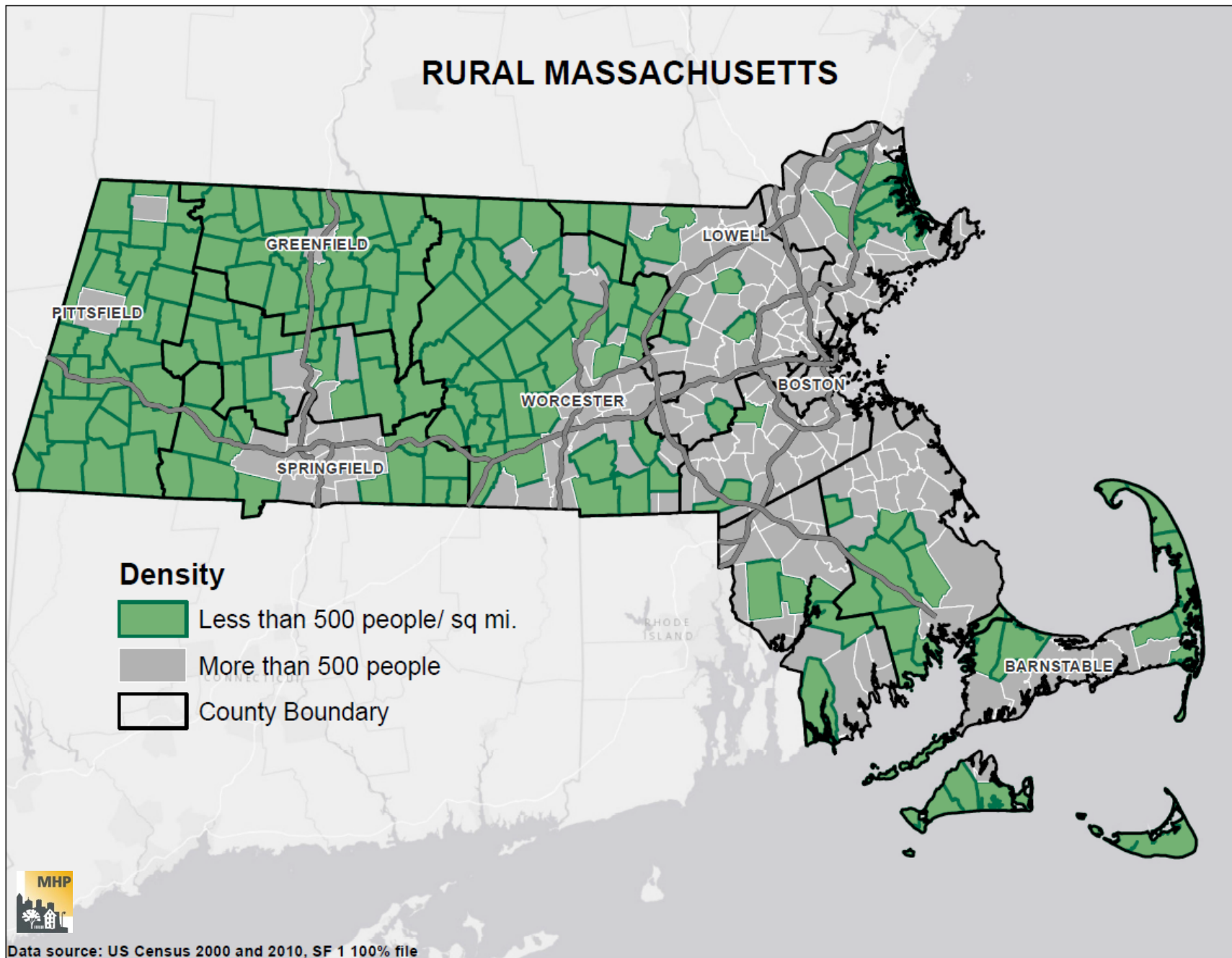
Under this definition, rural communities constitute 170 of the 351 municipalities, 13 percent of the population, and 48 percent of the land area of the Commonwealth.<sup>1</sup> Most of the rural areas are in western and central Massachusetts and the Lower Cape and Islands. Table 1 shows the number of rural communities by county, and the map in Figure 1 highlights which communities are rural.

**Table 1- Rural Massachusetts by county**

County	Total Municipalities	Number of Rural Towns	Percent Rural Towns
Barnstable	15	9	60%
Berkshire	32	30	94%
Bristol	20	5	25%
Dukes	7	5	71%
Essex	34	7	21%
Franklin	26	25	96%
Hampden	23	13	57%
Hampshire	20	16	80%
Middlesex	54	10	19%
Nantucket	1	1	100%
Norfolk	28	2	7%
Plymouth	27	9	33%
Suffolk	4	0	0%
Worcester	60	38	63%
<b>Totals</b>	<b>351</b>	<b>170</b>	<b>48%</b>

<sup>1</sup> These figures are based on 2010 US Census population data, where the Rural Services Commission used 2000 data.

Figure 1





## Why do rural areas warrant our attention?

As stated in the 2013 report from the Rural Access Commission, it is in the state's best interest to take action to ensure a higher quality of life to all residents, including those in rural areas.<sup>2</sup> The pressures they face may be on a different scale than urban areas but are nonetheless considerable, and are on track to get worse without intervention. Rural areas account for a significant portion of the state's land mass and represent almost half of its municipalities, and the vitality and competitiveness of the state as a whole depends on the strength of all 351 cities and towns. Ensuring the health and sustainability of these communities and their residents who live and work in areas rich with natural resources is important to the entire Commonwealth.

Many of the most rural places make important contributions to the state's economy. The Berkshires, Cape Cod, and the Islands are major tourist destinations, for both domestic and international travelers, and revenue from tourism accounts for a significant contribution to the state's revenue. Travel and tourism in the most rural counties employed over 20,000 persons in related jobs and accounted for nearly 20 percent of the state tax receipts from domestic travel in 2012. Expenditures from domestic tourism in these areas have increased annually since 2009.<sup>3</sup>

According to a 2012 study, the agricultural and fishing industries and related processing activity, much of which is concentrated in the most rural counties of the state, contributes \$13 billion to statewide sales output, generates \$5.5 billion in "value added" income which remains in the community, and accounts for approximately 68,000 jobs across the state.<sup>4</sup> Beyond sales numbers, and as rising fuel prices directly increase the cost of produce and the local food movement continues to gain momentum, rural Massachusetts farms are a necessity to provide quality produce at a reasonable price to the state and surrounding areas.

## What problems confront our rural communities?

Based on our community outreach and research, we found that rural Massachusetts communities are confronting many of the same housing challenges as our more densely populated communities including aging housing stock and a lack of affordable options for a variety of income levels. Several rural communities that are popular tourist destinations are also experiencing increasing pressure from a second home market. Many factors, including changing demographics, varied housing markets, geography, and availability of state resources play a role in how to address the housing challenges in rural areas. The following section describes the housing challenges and related factors in rural areas.

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<sup>2</sup> The Commonwealth of Massachusetts, EOHHS. "Special Commission on Rural Access and Improving State-Sponsored Services in Massachusetts Rural Communities: Report to the Great and General Court and Executive Office of the Governor." August 2013.

<sup>3</sup> Massachusetts Office of Travel and Tourism, "The Economic Impact of Travel on Massachusetts Counties, 2012." <<http://www.massvacation.com/wp-content/uploads/2013/09/econ-impact-12.pdf>>

<sup>4</sup> "The Overlooked Economic Engine: Northeast Agriculture." Farm Credit East report, 2012.

<[http://www.ct.gov/doag/lib/doag/boards\\_commissions\\_councils/gcf/04\\_farm\\_credit\\_east\\_2012\\_northeast\\_agriculture\\_the\\_overlooked\\_economic\\_engine.pdf](http://www.ct.gov/doag/lib/doag/boards_commissions_councils/gcf/04_farm_credit_east_2012_northeast_agriculture_the_overlooked_economic_engine.pdf)>

### **Many rural residents struggle with housing affordability**

The U.S. Department of Housing and Urban Development (HUD) considers households that spend more than 30 percent of their income on housing to be “cost burdened.” Statewide, 34 percent of homeowners are housing cost burdened according to this definition, and the percentage of cost-burdened homeowners across all rural areas is also 34 percent. But this masks a wide disparity between communities; rural towns on the Cape and Islands, and Franklin and Berkshire counties rank among the top 10 in the state for highest proportions of cost burdened homeowners in the state, at 45 percent or higher.<sup>5</sup> After devoting so much of income to housing, there is often little left over for other necessities, and added transportation costs in rural areas further burden already tight household budgets.

In 2012, the median household income for Massachusetts was \$66,658; 41 percent of the state’s rural communities had median incomes that were lower than the figure for the state as a whole.<sup>6</sup> Rural communities account for half of the communities where 40 percent or more households fall below 80 percent of Area Median Income, or AMI.<sup>7</sup> Low and moderate income households are disproportionately affected by high housing costs. In many parts of Franklin County and the Cape and Islands, more than half of low- and moderate-income households find themselves paying more than 30 percent of their income towards housing, and in several rural communities over 70 percent of homeowners are cost-burdened.<sup>8</sup> For most of its affordable housing programs, HUD defines households that earn less than 80 percent of the median income for the area as “low income.” For the purposes of the federal Community Development Block Grant program, “low income” households are those that earn 50 percent of median income or less; while “moderate income” defines households earning between 50 and 80 percent of the area median. HUD income categories are also defined by household size. The map in Figure 2 (on page 11) shows percentages of low- and moderate-income households by town, using the CDBG definitions.

The lowest income households, categorized as “extremely low income” or “ELI” under HUD standards, earn less than 30 percent of area median income. There are 33,762 ELI households in rural communities, comprising 11 percent of all households and 32 percent of the households earning below 80 percent of AMI.<sup>9</sup> Many households that fall in this group are minimum wage earners, or are on fixed incomes such as Social Security payments or disability. A full-time worker earning state minimum wage (\$8 per hour) would earn \$320 weekly or \$16,640 annually. The maximum housing cost this individual could pay without being burdened is \$416 per month. Even a household with two workers at this income would barely be able to afford a two-bedroom unit at Fair Market Rents in most rural areas.<sup>10</sup> Scheduled increases in the minimum wage (\$9 in 2015, \$10 in 2016 and \$11 an hour in 2017) will increase income for low-wage workers, but not by enough to make housing affordable.

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<sup>5</sup> Housing MA Data Portal, data on cost burden, calculated from US Census ACS data 2007-2011. <<http://www.housing.ma>>

<sup>6</sup> US Census American Community Survey (ACS) data 2008-2012 as retrieved through Housing MA data portal <<http://www.housing.ma>>

<sup>7</sup> US Census ACS data 2008-2012.

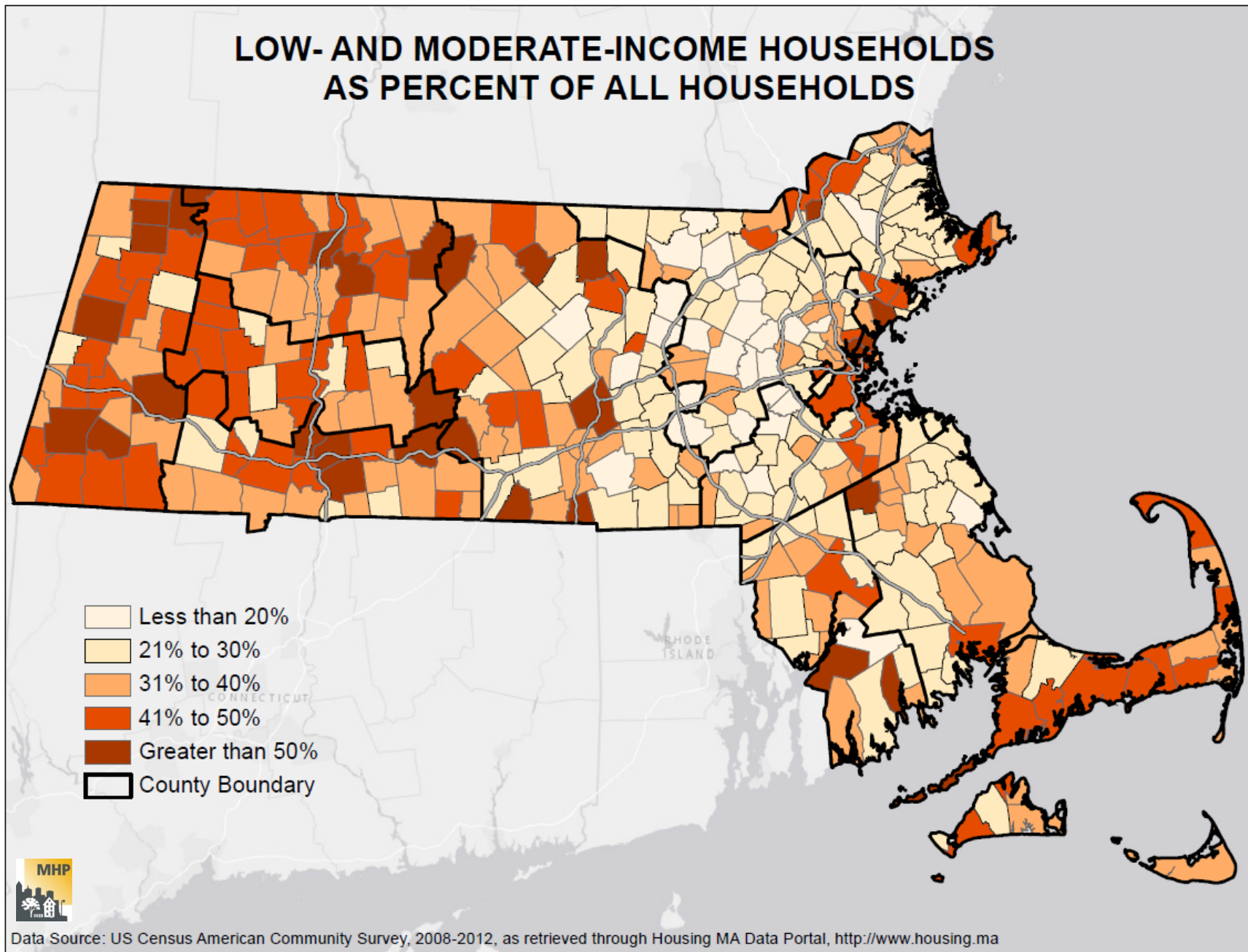
<sup>8</sup> Housing MA Data Portal, data on Cost Burden by Income Level statewide, calculated from US Census ACS data 2007-2011. <<http://www.housing.ma>>

<sup>9</sup> Housing MA data portal, data on number of households by income, calculated from ACS data 2007-2011.

<sup>10</sup> “Out of Reach” Report, National Low Income Housing Coalition, Data for Massachusetts 2014. “Fair market rent” or FMR is an estimation by HUD of the rent for a particular size of unit based on location and market, used in determination of rent limits for programs such as the Housing Choice Voucher Program.

For the most part, extremely low income households require some form of housing subsidy, such as public housing where rent is based on income, a state or federal voucher that pays a portion of the rent or mortgage or assistance from family or friends to avoid being burdened by the cost of renting or owning a home. The private real estate market is not able to provide housing that is affordable for ELI households. For a variety of reasons, Massachusetts remains one of the most expensive states for housing in the country. It is simply not possible to recover the cost of developing housing by renting or selling homes at prices that extremely low income households can afford in Massachusetts, much less make a profit by doing so. The result is that public investment is needed to create units that are affordable to low-income households. For the lowest income households, the gap between the market rent and affordable rent requires significant subsidies for both development costs and ongoing operations.

Figure 2

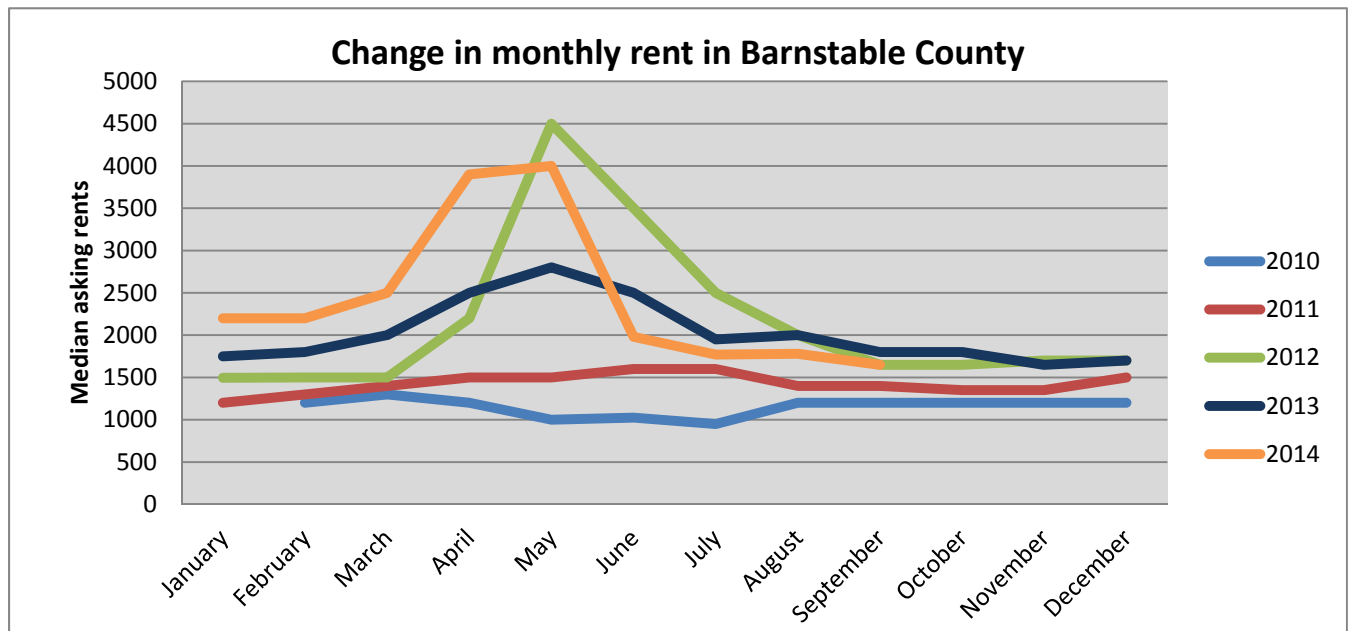


### Housing needs and challenges can vary by region

Rural communities in Massachusetts face two distinct types of housing challenges depending on regional economic conditions. In areas where tourism is a strong factor in the local economy, the value of real estate for second homes and seasonal rentals has inflated the price of housing to the point where it is not affordable for many year-round residents. This is typically a problem on the Cape and Islands, coastal tourist communities, and in the southern Berkshires. Rural communities in areas where agriculture and manufacturing historically dominated the local economy face a different challenge. In these areas, home prices and rents are lower but unemployment and under-employment are significant problems, and residents may not have the incomes to afford housing costs that seem reasonable compared to state averages.

Due to the longstanding popularity of the Cape and Islands as a tourist destination, a seasonal rental market in the region has caused prices to steadily rise, making housing unaffordable to low and moderate income households. For example, in September 2012, there was an affordability gap of \$225,000 between the median home value on Martha’s Vineyard and an affordable price for year-round residents earning the median household income, according to a housing study completed for the Martha’s Vineyard Commission. Finding affordable year-round housing rentals is also very difficult, as long-term leases are not always offered and asking rents jump in the summer months to cater to week-long stays for tourists. Year-round residents with low and moderate incomes who do not own their homes often find themselves in a cycle of being housed in the winter and homeless in the summer, a phenomenon often described as the “Island Shuffle.”<sup>11</sup> This cycle is also prevalent on Cape Cod as winter rental rates go up for the tourist season. The graph below shows the fluctuation in monthly asking rents, as reported by Zillow, in Barnstable County since 2010. The spike shown around spring indicates higher asking rents advertised for the upcoming summer season.

**Figure 3**



Data source: Zillow.com research 2010-2014

<sup>11</sup> Martha’s Vineyard Housing Needs Assessment 2014, Martha’s Vineyard Commission.

On the Cape and Islands and in the Berkshires, a strong market for second homes has increased the price of new and existing single family homes to the point many year-round residents cannot afford to buy them. Given a limited supply of land and the high cost of developing housing, it is much more profitable for the market to build luxury residences that appeal to second-home buyers than attempt to meet local demand for moderately priced housing. High housing vacancy rates can be misleading about supply in these regions: according to 2010 census data, Barnstable County had an overall vacancy rate of 40 percent, but 88 percent of these units were vacant due to seasonal or occasional use. From 2000 to 2010, the number of units listed as vacant for seasonal use increased 21 percent and 26 percent in Barnstable and Berkshire County, respectively, while the total number of housing units grew by only nine percent and three percent.

On the other end of the spectrum, job losses, underemployment and economic shifts in many rural communities in Franklin and Worcester counties and the northern Berkshire region have meant that many households are burdened by housing prices that may seem reasonable in comparison to the rest of the state. Average wages in these areas have not kept pace with housing costs or even with average wages across the state. Closings or relocations of major employers in recent years, including the North Adams hospital, energy plants, and manufacturing facilities, have resulted in a loss of hundreds of jobs, many with middle to higher-end salaries. The “soft market” in many of these economically distressed communities makes it difficult to both finance and build new housing.

No matter which type of market or region, there is a widening affordability gap between what a low income household can afford and what housing is available in our rural areas. The following highlights from reports completed by regional planning agencies serving the most rural regions in Massachusetts illustrate the gap:

- Franklin County has a shortage of 4,000 units affordable for households at or below 50 percent of AMI, who make up 30 percent of all households.<sup>12</sup>
- Low income households earning 50 percent of AMI or less would have difficulty finding affordable and decent rental units in nearly all communities in Hampden and Hampshire counties.<sup>13</sup>
- Approximately 61 percent of renters in Barnstable County are unable to afford a two-bedroom market rate unit at current median rents.<sup>14</sup>
- In Berkshire County, fewer than 10 percent of all housing units are affordable to households earning less than 80 percent of AMI, though nearly 50 percent of all households in the county fall under this limit.<sup>15</sup>

Rental housing often provides a more affordable housing option for seniors, young families and low- and moderate-income individuals, but it represents only 30 percent of the housing stock in rural Massachusetts (versus 40 percent statewide), and in many towns it is as low as 10 percent.<sup>16</sup>

Service providers and other rural advocates report that seniors in rural towns are deeply attached to their communities, but the closest option for an affordable rental unit may be a 20 or 30 minute drive from where

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<sup>12</sup> Franklin County Regional Council of Governments, Sustainable Franklin County Plan 2013.

<sup>13</sup> Pioneer Valley Planning Commission Housing Plan 2013.

<sup>14</sup> NLIHC, “Out of Reach 2014,” data as reported by the Cape Cod Commission

<sup>15</sup> Berkshire Regional Planning Commission, Sustainable Berkshires Plan 2014, Fair Housing Equity Assessment.

<sup>16</sup> US Census, American Community Survey 2008-2012

they currently live. Proximity to their community is one of the most important factors for seniors considering their housing options when they are no longer able to maintain or afford their home, but choices are limited in most rural areas. During our research we heard that for seniors, moving beyond the next town over can equate to a complete loss of their social and resource network, especially if they are no longer able to drive; unfortunately, few options often exist within their immediate area for safe, quality affordable housing.

Many rural areas, especially in Berkshire, Franklin, and Worcester counties, have some of the highest concentrations of homes built prior to 1940 in the state outside of the city of Boston. In Franklin County, 40 percent of the total housing stock is more than 70 years old.<sup>17</sup> Older homes are likely to have more costly upkeep or repairs, causing them to be more expensive to operate. Lead paint is still present in many homes dating from before 1978, creating a hazard to families with young children. Older homes with lead paint may be more affordable to low income families with children, but these households typically do not have the funds to pay for lead paint remediation, which typically costs tens of thousands of dollars. Currently, Community Development Block Grant (CDBG) funding is one of the only sources of assistance for housing rehabilitation in rural areas, and the maximum funding of \$35,000 per home is often insufficient to resolve all the problems with older buildings, especially for homes that need lead paint abatement or replacement of wells and septic systems.

### **Population shifts in rural areas are affecting current and future housing needs.**

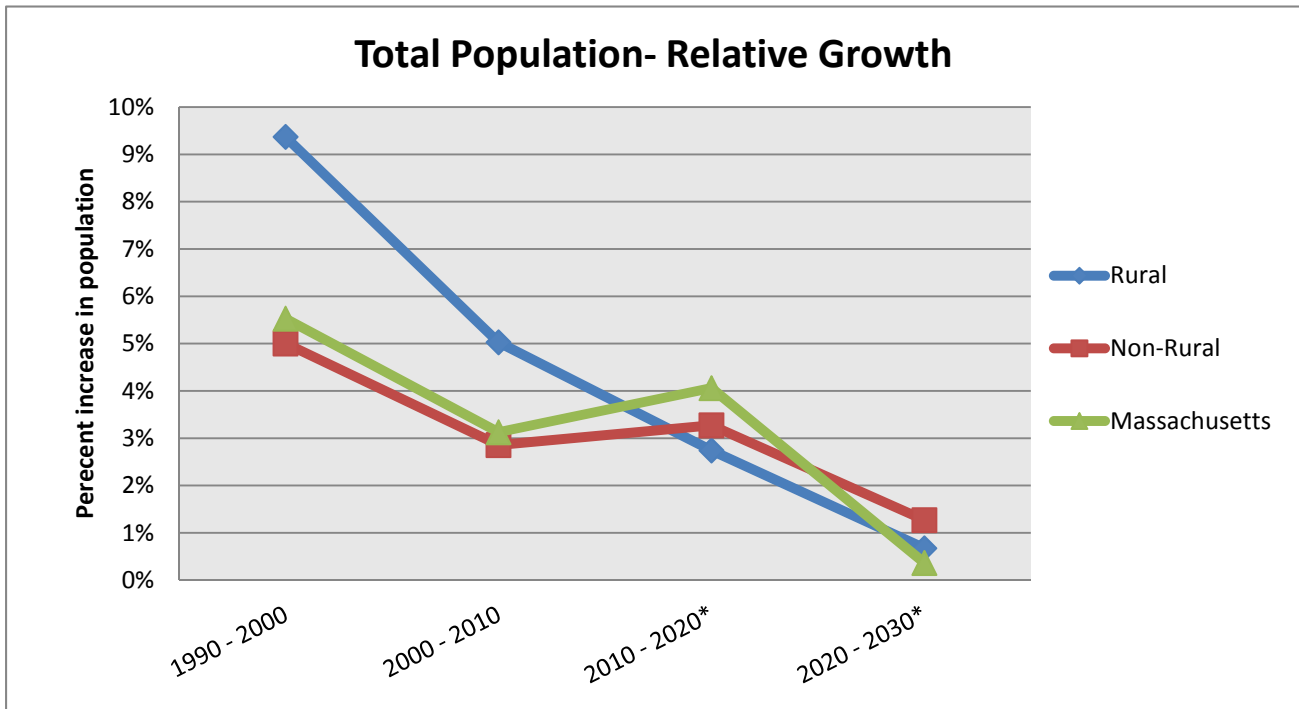
The population in some of the state's rural areas is decreasing and aging. Decreasing populations of families with children and the aging of the Baby Boom generation creates two challenges for rural communities: 1) how to attract and retain residents of all ages to ensure economic and cultural vitality, and 2) how to meet the needs of a growing population of seniors, including specialized housing needs.

Figure 4 on the next page shows the percentage increase in population in each decade for all rural areas combined, all non-rural places combined, and for the state as a whole. Rural areas had high growth in the 1990s, far above the state and non-rural areas, but according to projections prepared by the Donahue Institute at the University of Massachusetts, by 2030 rural areas will barely maintain population.

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<sup>17</sup> US Census, American Community Survey, 2008-2012.

Figure 4



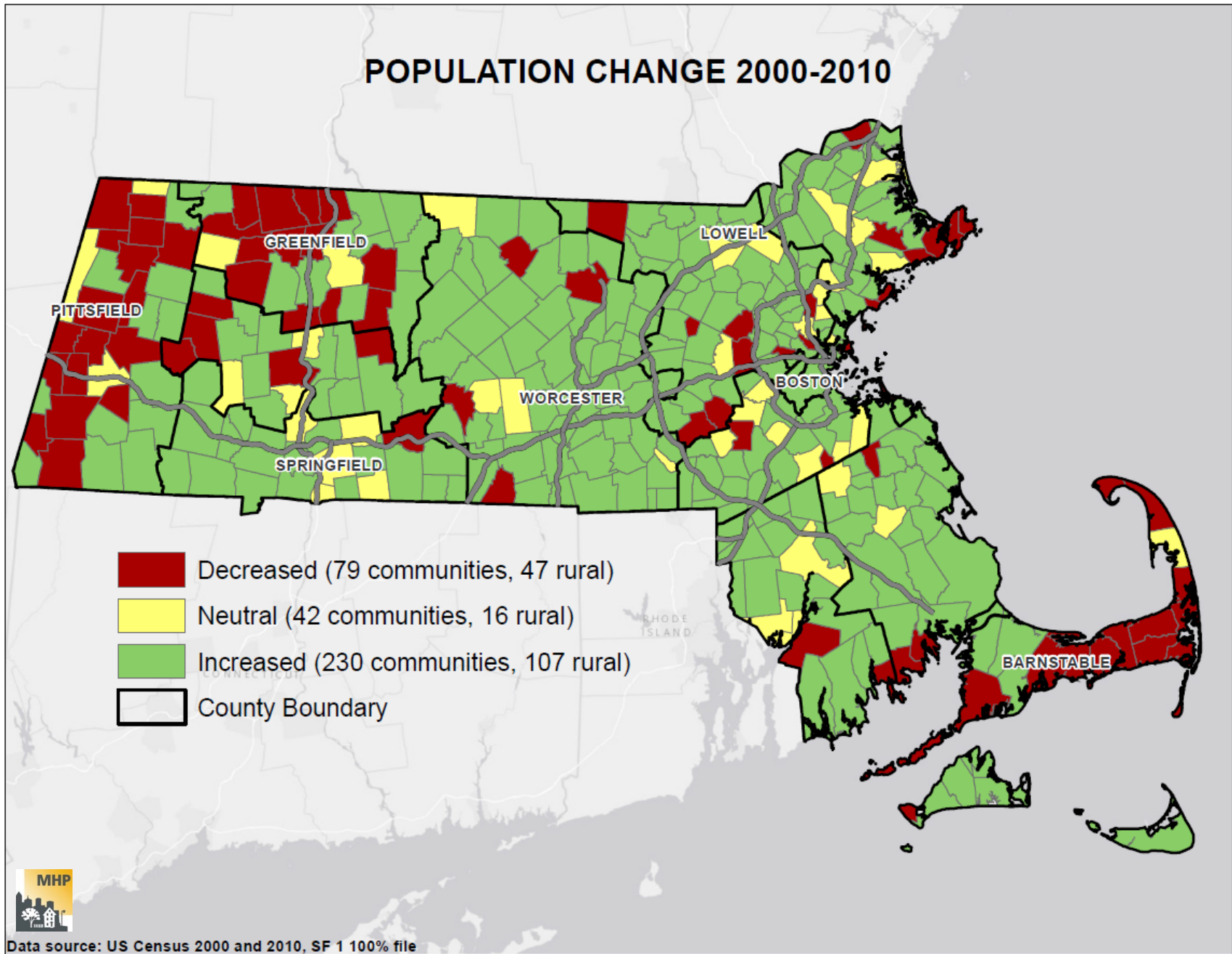
Data source: US Census 1990, 2000, and 2010; UMass Donahue Institute Population Projections, 2013. \* indicates projections.

Figure 5 shows population changes by community from 2000 to 2010. Several communities showed positive growth, but the areas that showed population decline during this time were disproportionately rural; 48 percent of the 351 towns are rural, but they made up almost 60 percent of municipalities that experienced population decline in the 2000s. Projections by region from the Donahue Institute show that the combined population of Berkshire and Franklin counties will remain stable at 2010 levels until 2030. The Cape and the Islands and Central Massachusetts will also see little to no growth through 2030. Population loss in Hampshire and Hampden counties is projected to result in a population decline to 2000 levels, even as the population of older residents increases. Population data also indicated households are getting smaller across the state, especially in rural areas: the average household size in rural areas had a sharper decline from 2000 to 2010, falling from 2.58 to 2.48, compared to non-rural household size declining from 2.59 to 2.54.<sup>18</sup>

<sup>18</sup> US Census data on average household size, 2000 and 2010, as retrieved through Housing MA Data Portal. <http://www.housing.ma>.

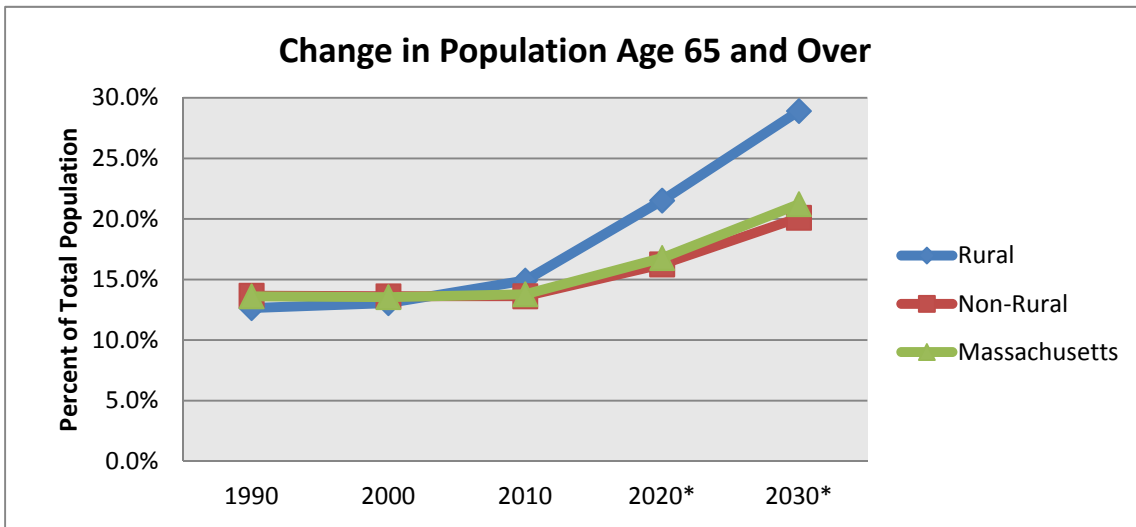


Figure 5



Much of the projected population growth or even maintenance of current levels in some rural areas will come from in-migration of baby boomers, masking a decline in younger populations. Many rural communities are experiencing a simultaneous loss of younger working-age families and a sharp increase in older residents. The proportion of the population over the age of 65 in rural areas grew faster than it did statewide during the 2000s, and rural communities are on track to have a nearly 30 percent higher increase in older residents than the state and non-rural areas through 2030, as illustrated in Figure 6.

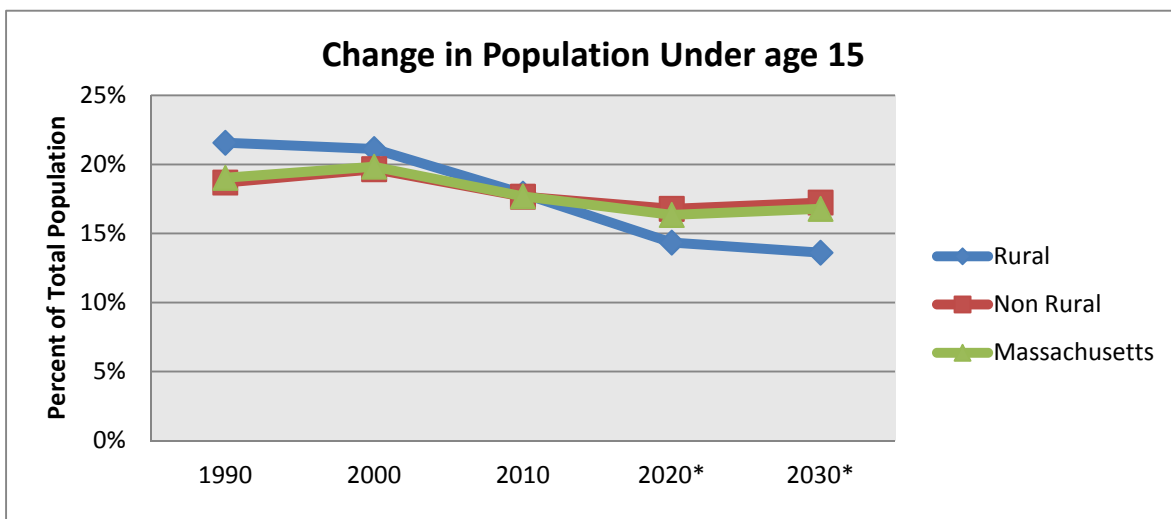
**Figure 6**



Data source: US Census 1990, 2000, and 2010; UMass Donahue Institute Population Projections, 2013. \* indicates projections

At the same time, the younger population has declined relative to the state, and is projected to decline sharply through 2030 based on current trends. Data for the population under age 15 shows that this age group declined by five percent in rural areas from 1990 to 2000, and will decline 21 percent from 2010 to 2030, even as this group remains neutral in Massachusetts and increases in non-rural areas. Public school enrollment declined by eight percent in rural areas from 2005 to 2013, even as non-rural areas and the state only saw a two percent decline during the same time.

**Figure 7**



Data source: US Census 1990, 2000, and 2010; UMass Donahue Institute Population Projections, 2013. \* indicates projections

These population trends have serious implications for the future of rural towns, where the majority of housing stock is detached single family homes that typically need significant maintenance and are not handicapped accessible. Current housing options will not meet the needs of the growing elderly population. Seniors will need smaller, accessible, easy-to-maintain rental and homeownership units. Low income seniors who are homeowners face an additional challenge in securing affordable housing. The equity in their homes may make them ineligible for subsidized rental units, but may be insufficient to allow them to purchase more suitable homes. They may be able to sell their homes and use the proceeds to pay rent for apartments in the private market, but rental units that meet the needs of seniors are hard to find in rural communities.

A decreasing population of families with children is a threat to the vitality of rural communities. The cost of primary and secondary education is not directly proportional to population. A sharp decline in the number of students may not result in a proportional decrease in school costs, because many of these costs, such as debt, building maintenance, and retirees, are fixed. Declining school enrollment may force cuts in municipal and school services, which makes these communities even less attractive to young families. In addition, families with school-age children are an important source of economic vitality for communities, as they constitute an important market for goods and services. When the population of young working families decline, so does demand for groceries, restaurants, home maintenance and other items and services purchased locally. The loss of young families may result in the closure of businesses and local employers may struggle to hire workers. Planners sometimes refer to this trend as a “death spiral” for rural towns.

The large stock of single-family homes currently owned by senior citizens in rural areas represents a potential opportunity to attract young families to these communities. However, making this transition will require that seniors have attractive, affordable alternatives to their current housing, and young families have economic incentives to stay in or move to rural towns and the ability to purchase homes in these communities.

### **Economic shifts and job losses contribute to need for affordable housing options**

As mentioned previously, we found that there are two primary patterns in rural areas when it comes to economic conditions. First, in some rural regions of the Commonwealth, declines in manufacturing have contributed to job loss and economic stagnation. Second, in Berkshire County and in coastal communities, tourism offers low-paying seasonal employment. Both patterns have impacts on demographic trends and affordable housing concerns and a comprehensive rural strategy will need to address appropriate economic development initiatives. These two divergent sets of concerns also have implications for statewide policy considerations.

Some of the population shifts in rural areas in western and central Massachusetts can be attributed to the loss of industrial and manufacturing jobs, which provided economic stability. Similar to the trends documented in Gateway Cities across the state, as large employers left or shut down and took many jobs with them, people also left to find work elsewhere. Regional planning agencies that serve rural towns emphasize how important economic development is to economic vitality in rural communities. Attracting and retaining new businesses can be difficult in places with decreasing population, limited infrastructure, and limited local municipal capacity.

Ultimately disinvestment becomes cyclic, with jobs located further away from those seeking employment, or those that are available may not pay enough to cover the cost of living for many households.

Rural communities that are increasingly reliant on the tourism industry in Berkshire County, the Cape and the Islands are subject to seasonal unemployment as the tourists leave. Seasonal jobs often pay lower wages and do not offer basic benefits. Low-wage workers in the tourism and retail sectors, agricultural workers and municipal employees in these high-cost areas often struggle to find affordable year-round housing options in the towns where they work, or even in surrounding towns.

Wages in many places have not kept pace with housing costs, especially for entry-level and minimum wage positions, contributing to the affordability shortage across the state. From March 2013 to March 2014, Franklin, Hampshire, and Barnstable Counties had the smallest increase in average weekly wages when all counties across the state are compared. When adjusting for inflation, average weekly wages in Franklin County and Hampshire County have decreased 11 percent and nine percent since 2005, respectively.<sup>19</sup> In some rural areas, pockets of unemployment remain; in parts of Franklin, northern Berkshire, Hampshire, and Barnstable Counties, the annual unemployment rate remained at nine percent or more through 2013, when the state was at seven percent.<sup>20</sup>

A recent study showed that Franklin and northern Hampshire counties rank fifth highest in percent of workers without earned sick time at 42 percent, topped only by Boston neighborhoods and greater Boston cities and the Fall River area. Cape Cod and the Islands fell just outside the top ten, ranking eleventh at 39 percent.<sup>21</sup> Thanks to recent statewide approval of earned sick time for all employees, this could improve, but ensuring access to jobs and job training still remains a concern in rural areas. Without access, both physically and financially, to training appropriate for available jobs nearby, cost-burdened rural residents cannot move toward economic self-sufficiency. And, without strategic continued economic development, well-paying jobs will still be too far away for many current or potential residents.

### **Geographic isolation and lack of public transportation further exacerbate the plight of low- and moderate-income households**

For households in rural areas earning below median income, geographic isolation contributes to unsustainable costs of living. Recent studies document how different the experiences and problems associated with poverty are for lower income rural households than those in more urban areas.<sup>22</sup> Limited access to social, economic, and health resources hinders opportunities for working adults and school age children. Rural areas of Massachusetts have historically not had access to broadband high-speed internet, a vital resource in today's technology-driven

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<sup>19</sup> Out of Reach 2005 – 2014, National Low Income Housing Coalition as calculated and reported by the Franklin County Resource Network <

[http://www.communityaction.us/tl\\_files/Community%20Action%20Content/Community%20Partnerships/Franklin%20County%20Resource%20Network/FCRN%20Legislative%20Breakfast%20Packet%202014.pdf](http://www.communityaction.us/tl_files/Community%20Action%20Content/Community%20Partnerships/Franklin%20County%20Resource%20Network/FCRN%20Legislative%20Breakfast%20Packet%202014.pdf)>

<sup>20</sup> Mass. Department of Labor and Workforce Development, Labor Force and Unemployment Rates through

<sup>21</sup> MassBudget Report- Earned Paid Sick Time by the Numbers, September 2014,

[http://www.massbudget.org/report\\_window.php?loc=Earned\\_Paid\\_Sick\\_Time\\_By\\_the\\_Numbers.html](http://www.massbudget.org/report_window.php?loc=Earned_Paid_Sick_Time_By_the_Numbers.html)

<sup>22</sup> Chinni, Dante. "Poverty's Changing Profile in the US." PBS Newshour, 7 Nov 2011. <<http://www.pbs.org/newshour/rundown/the-changing-landscape-of-american-poverty/>>

economy. Having access to high-speed internet is vital for healthcare, education, and access to services. The Massachusetts Broadband Institute has been working to develop broadband infrastructure across the entire state. As of June 2014 many more rural communities have the infrastructure in place, but many communities still lack this resource or only have limited capability, especially in central and western Massachusetts.

In many urban places, low- and moderate-income households have access to public transit, which is the exception rather than the rule in rural communities. Because of this, transportation costs are a significant expense for lower income rural households. The Location Affordability Index (LAI), a data tool released in 2014 as a project of the Partnership for Sustainable Communities, calculates the affordability of a specified place, accounting for housing costs and transportation costs. The map below shows housing and transportation costs as a percentage of income for moderate income households using data from the LAI. According to the Center for Neighborhood Technology, an acceptable benchmark for affordability for combined housing and transportation costs is no more than 45 percent of income.<sup>23</sup> Figure 8 shows affordability by location for these combined costs, and the burden of the additional costs of transportation in rural areas is evident as we look towards Franklin, Hampden, Hampshire, and Berkshire counties.

For example, a moderate income family that owns a home in Charlemont, Franklin County pays 32 percent of its income towards housing costs, compared to 39 percent for a moderate income family in Waltham, just outside of Boston, and 42 percent in Dorchester.<sup>24</sup> However, while that moderate income family in Waltham pays an additional 15 percent of its income on transportation, and in Dorchester, an additional 14 percent, the family in Charlemont spends an additional 30 percent of household income on transportation costs, meaning that they spend a higher proportion of their income on combined housing and transportation costs. Even more startling, a single parent family (owner or renter) in Charlemont pays 82 percent of income towards housing and transportation costs, compared to 62 percent in Waltham and 68 percent in Dorchester.<sup>25</sup> This means that a family earning a low income has less than 20 percent of their income available to cover groceries, health care, childcare, clothing, and other items.

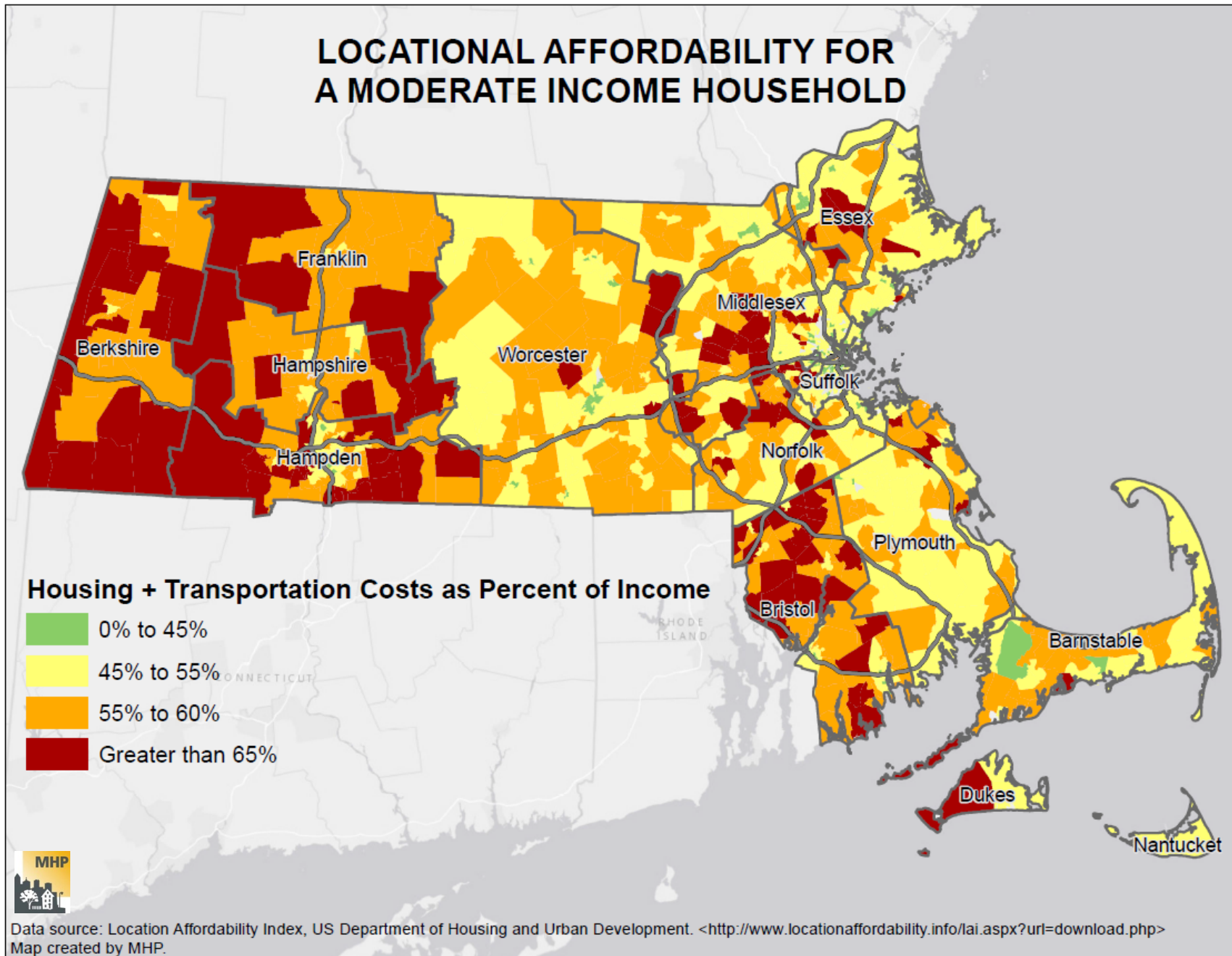
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<sup>23</sup> H + T Index, Center for Neighborhood Technology. <http://htaindex.cnt.org/about.php>

<sup>24</sup> In calculating moderate income family data, the LAI makes the following assumptions: 4 person household with an income of \$41,916 in Charlemont and \$58,215 in Greater Boston. LAI calculations are based on a definition of “moderate income” as 80% of Area Median Income (AMI).

<sup>25</sup> In calculating single parent family data, the LAI makes the following assumptions: 3 person household, 1 commuter/ earner at approximately 30% of AMI with an income of \$26,198 in Charlemont and \$36,385 in Greater Boston.

Figure 8



The Rural Access Commission report also cited the problem of transportation for low and moderate income families unable to afford a car. With little to no public transportation and limited housing choices within walking distance of all necessary services and resources, transportation issues contribute to many other socio-economic concerns in rural areas. Combined with transportation solutions, housing located in strategic development areas, like small town centers, throughout the mostly rural regions of the state would provide quality affordable housing close to some important community services and resources and help to alleviate some burden on households in rural areas.

**Developing housing is difficult due to infrastructure, scale, and resources—but the foundation and political will exists**

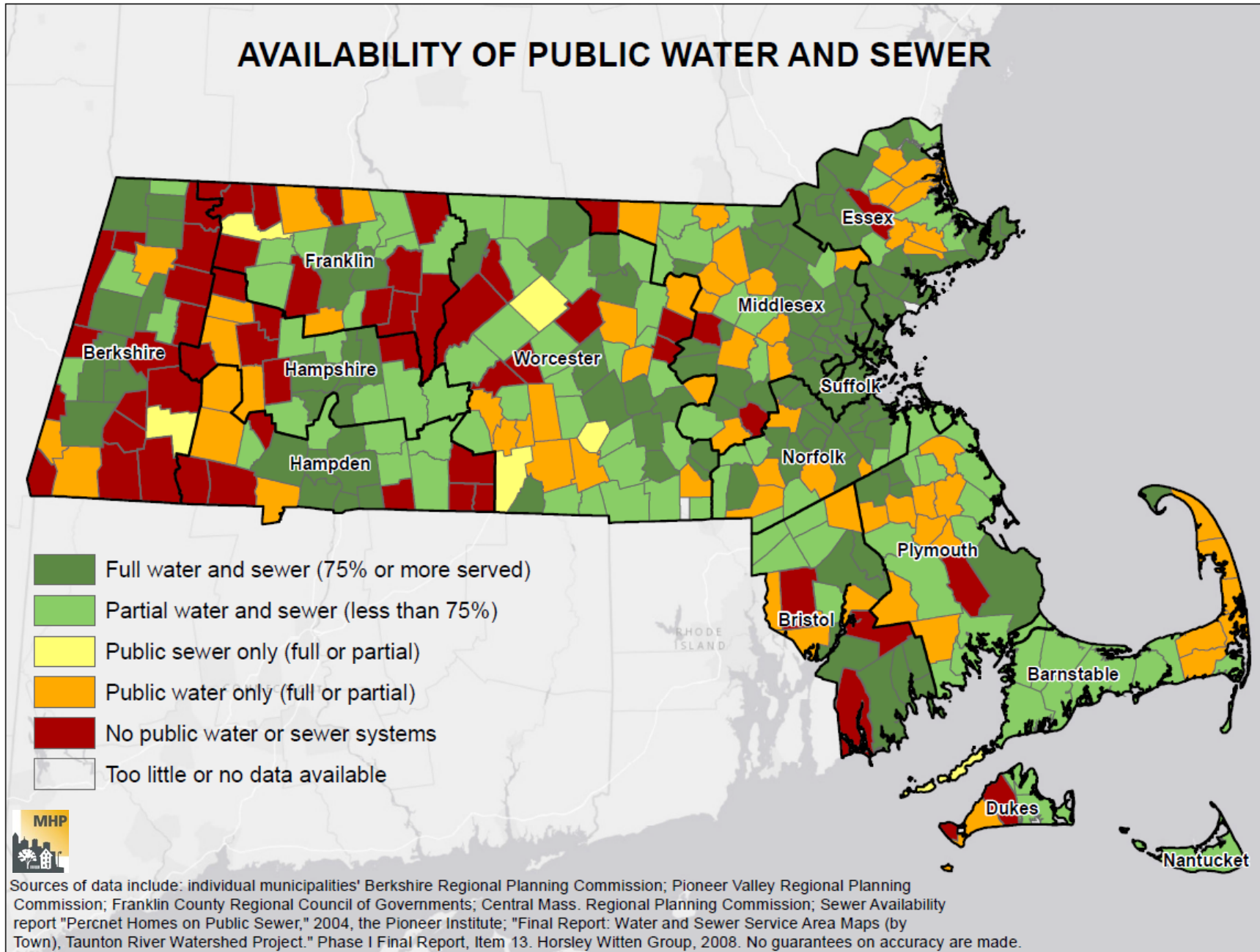
Rural housing development is complicated by a variety of factors including the lack of water and sewer infrastructure, the economics of building at a scale that is appropriate for small towns, and assembling the financing for small scale developments.

MHP compiled data from individual communities, the Massachusetts Department of Environmental Protection (DEP) and our regional partners to assemble information on the availability of water and sewer infrastructure in rural areas. Most communities in the rural western part of the state and the Cape and the Islands have very limited or no public water or sewer, as illustrated in Figure 9. While rural communities in many other states sought and received federal grants to construct infrastructure in the 1970s, the vast majority of the Commonwealth's smallest rural communities did not take advantage of this opportunity and are now at a significant disadvantage when it comes to meeting the need for water and sewage disposal in new housing developments. The complexity and expense of installing public or private water and sewer systems deters many developers from even considering small developments at a scale appropriate for rural communities.

A number of towns have partial water and/or partial sewer systems that serve town centers or one particular building. Without significant state or federal grants, the expansion of existing systems is financially and politically infeasible for cash-strapped communities. The Rural Community Facilities program provided through the United States Department of Agriculture (USDA) Rural Development awards partial grants and loans for infrastructure installations and improvements to water and wastewater programs, but funding has decreased and the focus is almost entirely on replacing failing systems. Tight municipal budgets and dependence on state aid for small towns discourage many communities from taking on significant debt to improve or create systems.



Figure 9





Smaller scale developments make sense in rural communities in light of neighborhood context, real estate markets, and the existing infrastructure. However, under the current state financing structure for development of affordable housing, proposed developments in rural areas must compete for funding against larger developments in suburban areas and cities. Federal Low Income Housing Tax Credits (LIHTC) are the primary funding source for development of new affordable housing but are typically not suitable for rural communities. A combination of the “soft costs” (legal and financing) involved in tax credit deals establishes a practical minimum project size of approximately 30 units, making it effectively impossible to use tax credit financing in areas without water and sewer. Because of the small scale of rural developments, costs associated with the pre-development process such as financing, taxes and insurance and long waits for funding are greater on a per unit cost basis than for larger developments. Further, as construction costs increase and resources become scarcer, it has become harder to assemble financing for smaller developments.

Federal funds that were historically targeted to development in rural areas have declined significantly, and those that are available are primarily dedicated to upgrading or repairing existing housing developments and infrastructure systems. Section 515 funding, a USDA-Rural Development rental assistance program for building low-income rental housing, was a major source for rental housing production in rural areas between 1970 and 2000. Massachusetts has over 2,000 Sec. 515 units constructed since 1970. Only 52 of these units or 2 percent were built between 2000 and 2010, compared to 33 percent between 1990 and 2000, 40 percent between 1980 and 1990, and 25 percent from 1970 and 1980.<sup>26</sup> The USDA’s Rural Development’s 504 Rural Repair and Rehabilitation Program provides limited loan and grant funds of up to \$27,500 per unit but has been underused in rural areas because of the program’s lack of available funding and the program limits. This has left a void in targeted funding for rural areas that needs to be filled through changes in state programs.

Further compounding the affordable housing problem in rural communities are the 5700 “expiring use” units in 128 developments; approximately 5500 of these units have affordability restrictions. These properties are privately owned but were produced using state and/or federal housing resources. Most funding programs required that owners commit to maintaining the affordability for a particular period of time – typically 20 to 40 years. Of these 5700 units, 787 units are at risk for conversion to market rents through December 2018 which will result in a loss of affordability to families and seniors. An equal concern for these developments is age and deterioration. Many of these developments are now 30-40 years old and tend to be more difficult to recapitalize than their urban counterparts.<sup>27</sup>

As noted in a recent MHP report, Massachusetts has some of the smallest land use jurisdictions in the country, with local land use boards serving a median population of less than 11,000 residents each.<sup>28</sup> That not only results in 351 different land use standards across the state, but it is especially burdensome for smaller towns with volunteer boards and no professional staff. Massachusetts also makes it difficult for communities to collaborate to share land use planning, growth objectives and tax revenue. While a few of those collaborations have taken place, that practice is arduous and unpredictable because it currently requires authorization through special acts of the Legislature.

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<sup>26</sup> USDA Rural Development, Southern New England Division. Interview with Richard Lavoie.

<sup>27</sup> Community Economic Development Assistance Corporation (CEDAC) data on expiring use properties

<sup>28</sup> “Unlocking the Commonwealth.” Massachusetts Housing Partnership, 2014. <[http://www.massgrowth.net/research\\_and\\_policy/](http://www.massgrowth.net/research_and_policy/)>

Despite the difficulty in implementing official community collaboration, a history exists amongst communities in rural regions of our state including Franklin and Berkshire counties and Cape Cod. These collaborations have ranged from shared municipal services, such as purchasing and building and health inspectors, to regional school districts and the submission of regional applications for CDBG funding. Inter-municipal agreements for the shared purchase of goods and services by cities and towns in Massachusetts are authorized through legislation enacted in 2008, but there is no structure in place for regulating collaboration on housing or planning. Regional planning agencies serving rural communities are often the best choice to assist in these collaborations and act as a “broker” but there are financial and logistical challenges for RPAs in working in a large number of communities. Regional housing agencies or a state-level office would provide more efficiency in brokering collaborations.

Inter-municipal collaboration on housing development is rare. Reasons for this include how our local governments are organized, a lack of regional visions or compacts, the absence of financial and other incentives to develop housing that serves a region rather than an individual community, and barriers created by state programs and regulations. Even the current requirements for the state’s competitive CDBG awards, which grant additional points for regional collaboration, can be very complex and require extra resources to assemble, which can be too much for small rural towns.

One small but promising model for regional collaboration is the Island Housing Trust’s planned affordable housing in Vineyard Haven, where four municipalities have pooled financial resources to support a six-unit development in the center of town. These units will be close to services and public transportation, which are not as readily available in the other communities.

Despite the challenges there is political will in rural areas to try to address these issues. Non-profit organizations and service providers form an excellent foundation, have community relationships and are in place to work towards a solution, provided there are macro-level changes and programs that support them. Excellent attendance at MHP’s two community forums in the Hilltown region of Hampshire County and on the Lower Cape indicated the growing concern regarding housing options and affordability from citizens and municipal volunteers.

## **What is Massachusetts’ history with rural efforts?**

Massachusetts has some experience with addressing rural policy and development issues but has not had a comprehensive approach in a number of years. In 1996, the Massachusetts Rural Development Council was established as a non-profit agency by executive order by then-Governor William Weld. The council, which was part of the national Presidential Initiative for Rural Development, was charged with critiquing state agency budgets and their impact on rural areas, advocating for rural issues, building capacity in rural areas, and

reporting on rural needs and results annually.<sup>29</sup> When federal funding was cut in 2003, the council ceased operations.

The Center for Rural Massachusetts was established in 1985 and was overseen by Department of Landscape Architecture and Regional Planning at UMass Amherst. It focused on zoning and economic development in rural areas, responding to resource loss and creating better village centers. The center revived some research activities in 2004 on economic development and smart growth in rural areas, but has since lost staff and is no longer active.<sup>30</sup>

Since 1994 the Massachusetts Office of Rural Health has coordinated care in rural areas, collecting and disseminating information on resources and data on rural health, providing technical assistance for local health initiatives and administering public health programs. And, as referenced above, a 2013 commission appointed by Governor Patrick reported on the challenges of service delivery in rural areas and issued recommendations.

These limited approaches to addressing the needs of rural communities do not go far enough to address the interrelated concerns in rural areas. The challenge of meeting current and future affordable housing needs in rural areas is just one example of the need for a clear voice and approach to public policy in rural Massachusetts. MHP sees an opportunity to build on current and past attempts to create an active and effective coalition focused on rural needs and solutions. We can address economic pressures and the draining of the labor pool, ensuring rural areas that are vibrant and maintain their identity.

## What can we learn from other states?

Recognizing that Massachusetts is not alone in its rural challenges, we examined how other states have addressed the needs of rural communities. Many other states throughout the country have created efficient ways to ensure the needs of rural areas are served in policy, funding and legislative decisions.

- In Maryland, the Rural Maryland Council, a non-partisan organization established by the state legislature, has a mission of improving the quality of life for all of the state's rural citizens. Through research, analysis, and outreach, the council promotes regional cooperation, and contributes to state and federal policy and program development and implementation.
- In Pennsylvania, the Center for Rural Pennsylvania, a non-partisan office set up by the legislature, works with the legislature, educators, state and federal executive branch agencies, and national, statewide, regional and local organizations to maximize resources and strategies that can better serve the state's rural residents. The center promotes and sustains the vitality of Pennsylvania's rural and small communities by sponsoring research projects to identify policy options for legislative and executive branch consideration and action; collecting data on trends and conditions, and publishing information

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<sup>29</sup> The State Library of Massachusetts, Executive Order #391, <<http://archives.lib.state.ma.us/bitstream/handle/2452/46493/ocm18597463-1996-EO391.pdf?sequence=1&isAllowed=y>>

<sup>30</sup> Center for Rural Massachusetts, "What is CRM?" <<http://www.umass.edu/ruralmass/publications.html>>

and research results to inform and educate audiences about the diverse people and communities of rural Pennsylvania.

- The Vermont Council on Rural Development (VCRD) is a nonprofit organization whose mission is to develop rural communities' capacity to create a prosperous and sustainable future through coordination, collaboration, and the effective use of public and private resources. VCRD is a partnership of federal, state, local, nonprofit and private partners. VCRD is non-partisan and works closely with communities and sponsors to coordinate collaborative efforts across governmental and organizational agencies.

Housing development models in other states vary, with a significant number of states formally recognizing the unique characteristics and needs of rural areas by specifically designating housing funds for rural communities in their Qualified Action Plans (QAP).<sup>31</sup>

- Twenty states ranging from California to Maine provide set-asides for rural housing.<sup>32</sup>
- In Vermont, Housing Vermont (HV) is a nonprofit syndication and development company that creates permanently affordable rental housing for Vermonters through partnerships with local organizations, public agencies and the private sector. HV provides expertise and pre-development financing for developments throughout the state.

## Recommendations

MHP recommends the following actions as practical solutions to begin to address the housing challenges described in this report. Our recommendations were informed by our research, outreach and our advisory committee, and fall into two categories: legislative and programmatic. As emphasized earlier in this paper, we do not expect that addressing housing alone will solve everything, but it is where MHP is best equipped to provide insight. The first proposal for a state-level office of rural policy will encourage collaboration and comprehensive action across multiple disciplines and fields, and the creation of this office will be the starting point to confront other socioeconomic challenges. The programmatic solutions are intended to address specific concerns that emerged from our research and our rural stakeholders.

### Policy

#### I. Create a State Office of Rural Policy

As described previously, Massachusetts does not have any public or private agency dedicated to promoting the economic prosperity and sustainability of rural communities. Many other states, including Vermont, Pennsylvania, and Maryland have addressed a broad spectrum of rural issues

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<sup>31</sup> Qualified Action Plans are a federally mandated planning requirement that states annually use to explain the basis upon which they distribute their LIHTC allocations. A number of states, including Massachusetts, set priorities for state housing programs in their QAP's.

<sup>32</sup> The Low-Income Housing Tax Credit: Overcoming Barriers to Affordable Housing in Rural America; Rapoza Associates 2013

through the establishment of public and non-profit agencies that coordinate and support collaborative rural policy, programs, and research. These institutions can serve as models for the Commonwealth in how to provide an efficient streamlined approach to serving the needs of rural communities.

*Recommendation:*

1. Establish a high level state office of rural policy that would function as a research and policy clearinghouse for issues critical to the health and welfare of our rural communities, including:

- Housing
- Health care (coordination with existing state Office of Rural Health)
- Economic development
- Education
- Transportation & infrastructure
- Information technology

The mission of this office would be to coordinate the efforts of necessary agencies, both state and community-based, to:

- Create policies and programs that sustain a prosperous future for rural communities
- Enable citizens in rural communities to achieve success in employment and have access to quality, affordable housing, health care, and other services;
- Promote and sustain agriculture and other natural resource-based industry as an integral part of the Commonwealth's rural economy and culture;
- Advocate for a manageable regulatory process and reasonable and effective compliance;
- Address the impact of changing conditions on the environment, heritage and economic well-being of rural Massachusetts.

II. Encourage, facilitate and support regional collaborations to increase housing affordability

Regional collaborations have been effective in promoting desirable public outcomes in an efficient way for small rural towns, but have rarely been used to create or preserve affordable housing.

Massachusetts also makes it difficult for municipalities to share responsibility for land use planning and growth management. While a few of these collaborations have taken place, the practice is burdensome and unpredictable because it currently requires authorization through special acts of the Legislature.

*Recommendations:*

1. Provide legislative authorization in advance for inter-municipal collaboration on land use planning and growth objectives, with checks and balances to protect state and local interests.
2. Provide financial incentives so that communities plan for and develop housing regionally.

## Programmatic

### I. Small Scale Rental Production Program

While a number of states with a significant rural population target funds for development of affordable housing in rural communities, Massachusetts does not. Yet we have seen that residents of rural communities face significant housing cost burdens along with barriers to new housing development, including lack of infrastructure and developer capacity. In our current funding system, small developments that are appropriate to the scale and needs of rural communities must compete with much larger developments in urban and suburban communities, which have lower per-unit costs.

#### *Recommendations:*

1. Create a small-scale rental production program for projects that are less than 20 units and that cannot feasibly utilize Federal Low Income Housing Tax Credits. The program would provide up to \$150,000 per affordable unit in capital subsidy (i.e., subordinate debt), for a maximum of \$1.5 million in subsidy per development, with a preference for projects that utilize less subsidy per unit. Funding would be contingent upon readiness-to-proceed, a comprehensive market analysis and management plan and a developer with strong financials and staff capacity.
2. Within the small-scale rental production program, create a funding set-aside for rural developments located near infrastructure, transportation and services.
3. Once the capacity to increase the volume of quality small-scale rental development has been demonstrated, further support the small-scale rental production program (including the rural set-aside) with a \$5 million annual increase to the state's bond cap for the Housing Stabilization Fund.

### II. Changes to the Community Development Block Grant Program (CDBG)

The state's competitive CDBG program, administered by DHCD, is designed to help small cities and towns that do not receive block grant funds directly from the federal government to meet a broad range of community development needs. Eligible activities include housing and community and economic development projects and social services that assist low and moderate-income residents, or revitalize areas of slum or blight. CDBG has been an invaluable resource to rural communities throughout the Commonwealth that may not have access to other funding. However, we heard that for many small and rural communities, the process to apply is complex and costly and while many are interested in regional applications, the requirements for multiple activities in each community often do not make sense. With guidance from our advisory committee, the following actions are proposed to improve upon the application process and allocation of these precious federal dollars.

#### *Recommendations:*

1. Streamline the application and approval process to make it easier for rural communities with limited capacity to apply for funding.

2. Evaluate the Community Wide Needs (CWN) scoring formula to ensure an accurate reflection of community need.
3. Review and improve the regional CDBG application scoring system to encourage smart and efficient regional collaborations.
4. Examine the current community set-asides to ensure that there is a fair and equitable system for the distribution of CDBG funds.

### III. Expanded Housing Rehabilitation Programs

As described in our research, many of our rural communities have a significant stock of older homes in need of rehabilitation. At present CDBG funding is the only state funding source for housing rehabilitation in rural communities, but the program limitations are often inadequate to address the large number of substandard homes in rural communities.

#### *Recommendations:*

1. Examine current maximum per project expenditures for housing rehabilitation within CDBG program and recommend changes to more accurately reflect actual costs.
2. Dedicate funds from the state's Housing Stabilization Fund (HSF) to fill the gap between actual and reasonable costs and the allowable CDBG limits and/or create new housing rehabilitation program using HSF funding.

### IV. Address Lack of Water and Sewer Infrastructure

The dearth of water and sewer infrastructure has a negative effect upon many aspects of rural life ranging from health to economic development, and in particular the development of new affordable housing. Few resources currently exist to help rural communities build these systems.

#### *Recommendations:*

1. Dedicate a portion of funding from the state MassWorks program for the upgrade or installation of public water and sewer systems in rural communities where there are opportunities for housing and/or economic development.
2. Work with state and federal legislators to encourage additional new and flexible financing options for water and sewer infrastructure.

## Conclusion

Rural communities throughout the Commonwealth make vital contributions to the Massachusetts economy and are key elements of the fabric of our state. These very same communities face mounting challenges when it comes to housing and a host of other issues and now is the time for action.

Many rural communities are in danger of economic decline due to aging and shrinking populations, resulting in diminished tax bases to cover basic services. Existing housing stock does not offer enough options to address changes in the demographics, serve smaller and elderly households, or help young people and families. A concentrated effort is needed to ensure affordability for households at all income levels and stages of life, along with a focus on economic development, transportation, infrastructure and improved access to social services. Without this effort, there will be limited options for families and individuals who have a deep and abiding commitment to maintaining their rural lifestyles.

Every community can benefit from a more coordinated approach by state and local agencies, whose funding, policies and work impact the quality of life for citizens. In rural communities this need for intentional coordination is crucial because of the limited resources these areas have, and their physical isolation, which further limits access to affordable housing, health care and jobs.

This paper highlights only a small portion of the existing and potential data and study on these places. It is our hope that this work will inspire more study and action in rural areas, especially on economic development, transportation, education and employment, and housing preservation and development. All of these together form the foundation for a strong rural community, and ultimately a strong Massachusetts.