

Distressed Property in Worcester: The Problems and The Options - April 11, 1997

EXECUTIVE SUMMARY

Worcester, like most older cities, has abandoned buildings, neglected property and vacant lots which are having an adverse social and economic impact on a number of neighborhoods. These properties are targets for arson, drugs and trash. After reviewing how the distressed-property problem is addressed in Worcester and several other cities, the Research Bureau makes a number of recommendations (see recommendations section for further elaboration):

- The City should establish an overall neighborhood and community development agenda. This should include, for example, a plan for managing and disposing of the City's inventory of vacant lots and abandoned buildings.
- The City should utilize fully the resources available for helping cities to implement a community development agenda. These include grants from local and national foundations, and loans from banks and insurance companies to leverage the City's limited resources.
- The Office of Planning and Community Development (OPCD) should continue to work with neighborhood and community development organizations to prepare comprehensive plans for each neighborhood. These plans should include use of eminent domain powers where appropriate for neighborhood revitalization.
- The City should contract with a consulting firm with planning, urban design, traffic, land use, housing, and economic development expertise to implement these neighborhood plans.
- The City should develop an integrated land records database. An accurate and comprehensive inventory of property-based information that can be shared by public agencies and authorities is necessary for planning and land management purposes. In order to achieve this goal, the Geographic Information System (GIS) program needs additional staff.
- The inter-agency task force that has been meeting for the past several months to develop policies related to foreclosure and disposition of distressed properties should be converted into a permanent neighborhood development cabinet. It should be modeled after the successful economic development cabinet created by the City's Chief Development Officer.
- The City Manager should utilize the provisions of Massachusetts General Laws (M.G.L.), Chapter 58, Section 8. Under this statute, he can request the Commissioner of Revenue to authorize the City's assessor to grant abatements for abandoned residential property of six units or less that are proposed to be rehabilitated into six units or less.
- The City should review the assessment of property in low-income neighborhoods to determine whether it is over-assessed compared to more expensive housing. If it is, property taxes should be reduced accordingly, since the property tax assessment rate has a large and significant effect on abandonment rates.

- The City should design incentives that encourage property owners to pay their delinquent taxes before their properties enter the foreclosure process. These include a high visibility ad campaign that publicizes names and amount owed by the worst offenders, and denial of various licenses and permits for individuals who are delinquent on their property taxes.
- The City should provide landlord training seminars on a regular basis.
- The City should avail itself of the M.G.L., Chapter 139, the law allowing prosecution of owners/landlords.
- The City should continue to use receivership as a tool for dealing with housing that has serious code violations.
- To prevent the loss of viable properties to demolition, the City should develop procedures to identify and re-use recently vacated residential properties before they are vandalized or suffer serious damage. A direct reporting system, such as a telephone hot line, needs to be developed to allow individuals and community groups to inform the City about newly vacated properties.
- The City Council should approve a demolition delay ordinance for historic buildings.
- The City should adopt an abutter lot program similar to the one used in Boston.
- The City should develop a community-based "Land Stewardship Demonstration Program" for vacant-land maintenance. The City should work with various community groups to develop a target demonstration program for the long-term maintenance of vacant land, modeled on community land trusts. The objectives of land trusts are to acquire, hold and maintain land for community benefit.

I. INTRODUCTION

Every city has abandoned, neglected property and vacant lots which once contained structures. Planners and researchers call them TOADS (Temporarily Obsolete Abandoned Derelict Sites). They are scattered, unused parcels of land of varying size and shape. Some contain abandoned structures; others are only empty lots. They are no longer used productively, or they never were. Often they have been damaged by previous industrial or commercial use, or by proximity to such uses. In general, research on abandonment of buildings has been concentrated on identifying the causes of housing abandonment, the economic consequences, and strategies for reclamation. According to Greenberg, Popper, and West, three Rutgers University researchers, there has been little focus on the possible social consequences of building abandonment, although there have been some exceptions.¹ A study of abandonment in Newark concluded that it was more the result of owner-tenant disputes and neighborhood change than of the physical characteristics of the building themselves.²

In 1990, Greenberg, et al. conducted a survey of the fifteen largest cities to determine, among other information, the most serious types of problems attributable to abandoned and derelict sites.³ While economic issues such as costs to a city in terms of lost revenue, cost of cleanups, maintenance, demolition, and rehabilitation were important to one-third to one-half the cities interviewed, the

social issues posed by abandoned properties were considered to be more of a problem by more than one-half of the cities interviewed. These included:

- Fire Safety

Since abandoned structures have received little maintenance over the years, faulty wiring and debris create the potential for quick ignition. These properties are often the target of arson. Since they are generally located in densely populated areas, they may cause nearby occupied structures to burn as well.

- Shelter for the Homeless

Abandoned structures increasingly have become shelters for the homeless. The buildings are easily entered, and with the onset of cold weather, more people try to get off the street. Because they offer no heat, occupants build fires during winter in the dilapidated structures, presenting possibilities for disaster.

- Drugs

Abandoned properties are increasingly used for drug traffic. Vacant structures often are used as crack houses, leading to further deterioration and physical threat to neighbors. Drug activities bring unwanted elements into the neighborhood, increase other types of crime, and leave residents feeling vulnerable and insecure, especially families trying to raise children and elderly residents who find it difficult to move elsewhere.

- Dumping of Trash and Rodent Infestation

Both of these problems are commonly associated with abandoned property and vacant lots. Health departments in particular are worried about rodents as carriers of disease. Dumping debris is both unsightly and possibly unsafe, and can lead to further deterioration and disinvestment of nearby structures.

It is apparent from the issues raised above that it would be difficult to attract investors to these neighborhoods because abandoned housing represents more than just empty physical structures, and vacant lots are not simply open space; they are part of the fabric of what constituted a neighborhood, and are an indication that a particular neighborhood is in difficulty. According to Harvard professor Howard Husock, "neighborhoods are the civil societies which their residents create through myriad activities - whether organized crime patrols, volunteering at a local school or simply doing favors for neighbors - which make an area a better place to live. Physical maintenance of homes is a key part of these mutually beneficial efforts which neighbors undertake. Such maintenance helps to ensure that there will be new buyers for homes which come on the market - a prospect which benefits all residents, not simply those who sell."⁴

Thus the presence of abandoned property and/or vacant trashed lots is an indication not just of an economic problem but of a serious social problem that must be addressed before further neighborhood deterioration occurs. The vacant land is also the result of the so-called "greenfield problem." This refers to the tendency of developers to pass over previously built-up areas in favor of sites that have never before been built on, because the latter may be cheaper and more accessible to highways. Urban vacant land, then, is but one aspect of a pervasive pattern of land use that may adversely affect suburban dwellers and city dwellers alike. Increased reuse of vacant land would help stem decentralization and sprawl and at the same time help revive distressed urban areas. Worcester, of course, is no exception to a problem that is facing American cities. This report will try to address several questions:

- What is the extent of Worcester's abandoned property/vacant lot problem?
- How is the City currently addressing this problem?
- How are other cities dealing with this issue, and are any of their programs suitable for adoption in Worcester?

II WHAT IS THE EXTENT OF THE DISTRESSED PROPERTY PROBLEM IN WORCESTER?

A. Abandoned Buildings

According to the Worcester Fire Department, which keeps records of vacant buildings, the City has about 225 vacant residential structures and about 30 vacant commercial buildings. Many of these are being renovated or have been scheduled for renovations. However, the Fire Department reports that a number of others have been burned, and are dangerous. Since 1995, 71 residences have been demolished. While 31 were demolished by the City, the others were demolished by their owners. Twelve more have been targeted for demolition shortly with a state grant of \$175,000. Since 1995, 88 units containing 233 housing units have been released from condemnation and are now occupied.

B. Vacant Lots

The City currently owns about 130 tax title lots. This represents about 12% of approximately 1,100 vacant lots identified within the entire city. In other words, 88% are privately owned. There is no record of the condition of these vacant parcels, that is, how many are actually blighted and represent a public nuisance.

C. Municipal Liens

The City contains 45,000 parcels of land, of which back taxes are owed on about 1,500 or 3%. This amounts to about \$10 million in back taxes owed to the City.

In order to understand the more specific problems of abandoned property and vacant lots in Worcester, the Research Bureau selected several such parcels in the Main South area. A brief review of the history of each parcel, including what was there, when structures on it were demolished, changes in assessed value, changes in taxes paid, and liens against the property will begin to illuminate the issues, and possibly point toward some resolution.

6, 8, 10 Davis Street

These are three vacant lots of less than 5,000 square feet each, classified as undevelopable because of their size and perhaps slope. A search at the Worcester District Registry of Deeds indicates that the houses on these parcels were demolished more than twenty years ago, although the remains of steps and foundations are still visible today. The assessed value of each parcel is less than \$2,500, and the city is currently collecting about \$130 a year in taxes from the owner of all three parcels. At present, about \$35 is owed the city in back taxes.

When the City cleared title to these parcels more than twenty years ago, it did not take advantage of the opportunity to determine the highest and best use of this land; there is still no plan in place for re-use. If the three parcels were combined, would it be developable? Could these parcels be transformed into a community garden? The history of these parcels suggests the need for the City, once it clears title, to have some suggestions for re-use within the context of an overall neighborhood plan. Re-use of vacant parcels would undoubtedly enhance the value of the property and yield more than \$130 in property taxes.

25 May Street

A demolition order was issued by the City in 1994 because of fire; the owner appealed the demolition order. Since no repairs have been made to the property, the City, on a reappeal, was granted authority to proceed with the demolition. This property was at one time a single-family home, but with additions, it is currently classified as a two-family residence on 6,500 square feet. As recently as 1991, it was valued at \$117,600; today its assessed value is \$67,700 which seems high given that it is abandoned and on the demolition list. The liens on the property are almost \$4,700. The house could be made into a habitable single-family residence again by removing the burnt addition in the rear. Is it in the City's interest to acquire this property before demolition and ensure its rehabilitation, especially since the adjoining property at 23 May Street may meet a similar fate without municipal intervention?

23 May Street

This is a three-family home on a quarter-acre lot that was recently abandoned. Its current assessed value is \$96,500, although in 1992 it was assessed at more than \$500,000. The City is owed \$45,000 in back taxes and \$25,000 in interest for a

total of more than \$70,000. The property is owned by Bank of Boston, which acquired the mortgage from its merger with Worcester County Institution for Savings. The bank has not foreclosed on the property, and it is unlikely to get an offer that will cover the outstanding liens. The City is now trying to clear title through land court.

In the case of both 23 and 25 May Street, immediate intervention is necessary in order to prevent a one-third acre hole appearing on May Street. 23 May Street is subject to the same vandalism and fires that occurred at 25 May Street. Should the City be negotiating with the Bank of Boston to obtain 23 May Street? Should the City work with the Main South Community Development Corporation (CDC) to secure the properties for its first-time homebuyer program in order to prevent the demolition of the properties and further erosion of the residential tax base?

23 and 25 Kilby Street

This was a mixed-use structure on about 6,700 square feet with commercial space on the first floor and six residential units on the upper floors. It was demolished in the fall of 1996. After demolition, the property was assessed at \$13,400 and the taxes are \$267; in 1992, it was assessed at \$469,000 and the taxes were \$5,200. The liens against the property are \$7,900 and \$600 in interest, for a total of \$8,500 owed the City.

The fate of this property, as with many others in the City, was tied to real estate speculation that took place in the 1980's; the value of this property doubled between 1987 and 1992. This period was followed by bank mergers in the 1990's. (Worcester has lost eight lenders in recent years.) The new lenders are unwilling to foreclose on the property, either because of the liabilities accrued or because it is no longer worth the legal expense after a bank merger where the asset was not calculated in the acquisition equation. In many cases, it has been difficult to track down the holders of the note so as to enable a private party or the City to acquire the property.

4 and 6 Hollis Street

This property, which was demolished in 1995, was a six-unit apartment building on a 4,900 square foot lot. The land is located across the street from the vacant lots at 23/25 Kilby discussed above. In 1990, the Hollis Street property was valued at \$212,900 and the taxes paid were \$2,000. After the demolition, it was assessed at \$21,000, and the taxes are \$392. The liens on the property (\$21,000) equal the assessed value of the property.

Since many of the nearby parcels are vacant, and they are abutting an industrial use (Rice, Barton & Fales Corporation), these parcels may be suitable for industrial expansion and/or parking for industry. To determine that, there should

be a neighborhood plan indicating appropriate areas for residential use, industrial use, and buffer areas. Is this site suitable for eminent domain taking?

South Tainter

This industrial building is located on a 175,000 square foot (four-plus acre) lot. While it was vacant for almost twenty years, part of the building is now being used as a storage facility. The current assessed value is \$198,500, and the taxes are \$7,000. That is down from an assessed value of almost \$1.5 million in 1992 and taxes of \$14,000. Liens against the property are \$2,000. (The current value is half that of the mortgage.) The low taxes indicate that this industrial land might be extremely competitive with industrial land in the surrounding communities that have a single tax rate. If that is the case, then this land should be marketed accordingly.

17 Kilby Street

The building on this property was demolished in 1980. The lot is 3,400 square feet and listed as undevelopable. The property is assessed at \$1,600; the taxes are \$30; and liens against the property are \$21,600. Thus the situation here is somewhat similar to the Davis Street lots. The City has no policy for gaining title to such properties. If the City used its eminent domain powers, it could issue a check to the owner, but since the City is owed money, the check would revert to the City's treasury. Once the City owned the property, it could dispose of it by implementing an abutter-lot program similar to Boston's. Under this program, parcels that are valued at less than \$25,000 and are less than 5,000 square feet can be sold without a lengthy public process to those who own contiguous property. The parcels can be used for parking or additional yard space. A 5,000 square foot parcel costs \$1,000, and smaller ones cost proportionately less. In addition to returning such properties to the tax rolls, the City would save the annual clean-up costs.

III. WHAT IS THE CITY DOING TO ADDRESS THE DISTRESSED-PROPERTY PROBLEM?

A. Role of Municipal Agencies

Several city agencies have different and often competing responsibilities for dealing with abandoned property and vacant lots because of the state statutes under which they operate:

- The Treasurer's Office is responsible for collecting the back taxes on property in order to provide the funds for financing municipal services. It does not have responsibility for reversing neighborhood disinvestment. The Treasurer is also the tax title custodian with authority to sell property at auction once it has been

acquired. (If properties are identified for a specific purpose, OPCD can issue a Request for Proposals (RFP) for their disposition.)

- The Department of Public Health and Code Enforcement is responsible for addressing code violations. If these are severe enough, and are not addressed in a timely fashion, the Department can condemn a building. The owner is given one year to make the repairs. If the repairs are not completed, the Department can recommend demolition, and proceed after hearings with the owner.
- The Assessor's Office is responsible for assessing the value of each parcel, and ensuring that its value reflects its current status. If a building has been demolished, the property's value has decreased, and future taxes should be lower than before. If assessments do not reflect the current status of a property, the higher taxes can be an impediment to reuse.
- OPCD is responsible for rebuilding neighborhoods. In that capacity, it is concerned primarily with what becomes of individual parcels after they have been sold. How does a particular parcel fit into an overall plan for neighborhood revitalization? It has allocated Community Development Block Grant (CDBG) funds to CDCs for neighborhood planning.
- The Fire Department is responsible for fire inspection and fire prevention activities. Along with OPCD and Health and Code, it meets monthly to determine which buildings should be demolished. The cost of demolition is approximately \$14,000 per residential building, which is then added to all the other liens that have accumulated on a property. (Cost, of course, varies with size and type of structure.)
- The Inter-departmental Task Force which consists of all the above-mentioned departments has been meeting regularly for the past several months to try to develop a process for decreasing the amount of time it takes for the city to foreclose on a property.
- Land Court, located in Boston, where foreclosure proceedings are executed as described below, is designed to protect the rights of the property owner. This can be a three-year process. The proceedings are not concerned with neighborhood well-being.

B. Tax Titles and Foreclosures

According to M.G.L., Chapter 60, Section 54, when a taxpayer is delinquent in paying local real estate taxes or the local charges which constitute liens on the real estate, a city or town has the right to take title to the taxpayer's property and to undertake foreclosure proceedings. The process of taking title begins 14 days after the tax collector has sent a demand for overdue taxes. Foreclosures in the Land Court are generally the main avenue by which the treasurer either forces the delinquent taxpayer to redeem the tax title or, if payment is not made, acquires title to the property for the municipality through foreclosure proceedings. Before Land Court foreclosure proceedings can begin, a period of at least six months must expire since the date of the tax taking. Cases do not move through Land Court automatically. The Treasurer or the attorney who has been appointed by the City must monitor the progress of each petition to foreclose. The Land Court

appoints an examiner, who submits a mini-title abstract of 20-25 years behind the tax taking and submits a written report setting forth the names and addresses of all parties having an interest in the property. Each party receives notice and must take some positive action or be forever barred from redeeming the property. If any notices do not reach the interested parties, it is the Treasurer's responsibility to locate the correct address of those parties. If an interested party appears and pays the taxes, he can redeem the property. Partial payment also prevents foreclosure. In non-contested cases, the court may issue a foreclosure decree and the City owns the property. The property is managed by the tax title custodian until it is sold at auction (or if the city determines there should be restrictions on its use, it can prepare an RFP for the property). The opening bid has to cover all the liens against the property so that the City can recapture what it is owed. If the liens are more than the property is worth, the land probably won't be sold without an infusion of state or federal funds from programs designed for these purposes. (See programs discussed below.) Property valued under \$5,000 does not have to be foreclosed in Land Court; the Commissioner of Revenue can allow the foreclosing tax title by a sale at public auction.

In order to expedite the foreclosure process, the Treasurer packages a number of properties at once for Land Court proceedings. The increase in value then warrants greater attention from both the City's Attorney and the Land Court.

There are several municipal programs employed by the City to dispose of abandoned foreclosed properties:

A. Reclamation of Abandoned Foreclosed Structures

The federal HOME program is used by the City to help developers reclaim abandoned foreclosed residential structures. As of January 31, 1997, eighty structures have either been completed or are on schedule for reclamation. They are then made available to eligible first-time buyers or to prospective landlords having a reputable management track record. The City limits its assistance to \$15,000 per unit, repayable at below market terms.

B. First-time Home buyer Assistance

In an effort to increase the levels of homeownership as a means of stabilizing neighborhoods, the City, two years ago, began providing up to \$3,000 to eligible first-time homebuyers in need of down payment and closing-costs assistance. HOME funds are used for this program as well. Preference is given to buyers interested in purchasing triple-decker properties in inner-city neighborhoods. One- and two-family structures are considered as funds allow. As of January 31, 1997, there have been 66 sales.

C. Development of Neighborhood Revitalization

Through its newly-acquired GIS (Geographic Information Systems) capability, the City has prepared a map which shows all demolition and rehabilitation activity either completed or proposed. It shows reclaimed structures, those to be demolished, tax-title lots, and privately-owned lots. The purpose is to facilitate neighborhood planning by making it easier to identify parcels that should be priorities for re-use. Based on discussions with neighborhood groups, CDCs, and other organizations, the City can then assist with development of plans for those parcels. The map does not include information on municipal liens or assessed value.

D. Re-use of vacant lots

During the last decade, the City has built almost 300 units of in-fill housing on vacant lots. This housing was built with a combination of state (Chapter 707) and federal CDGB funds.

E. Abutter Lot Program

Since the City owns only 130, or 12%, of about 1,100 vacant lots, OPCD has determined that an extensive program to market abutter lots would not have anything like the impact such a program has had in Boston, where the city owns 3,000 vacant lots. Boston sold 100 lots in a little over a year, and expects to close on another 200 within six months. In Worcester, OPCD is working with neighborhood groups to identify vacant lots in need of re-use. Based on these neighborhood planning sessions, the most desirable re-use is to transfer lots abutting CDC first-time homebuyer developments to the appropriate CDC, or to build tot lots or offstreet parking, particularly in neighborhoods with multi-family housing.

IV. PROGRAMS IN OTHER CITIES

A. VACANT LAND INVENTORIES

An important element in dealing with vacant land is managing essential information about vacant properties such as property ownership, possible liens, and current address of the owner. Cities have difficulty inventorying and tracking this information because: 1) any one of several city agencies could own the property; 2) different agencies need and possess different types of information about properties; 3) many departments keep information on paper rather than in a computerized data base; and 4) a lack of interagency communication and updating of information leads to discrepancies in information in various departments.

The City of New York is one of a few cities with a centralized, computerized information system for managing vacant land. The system is a central computer data base that provides information concerning city-owned vacant properties. The system, which is accessible through terminals in city agencies and the 59

Community Planning Boards, provides information on how the property is currently being used, which city department currently owns it, physical description and dimensions, and the status of the property including special features and current plans for the property. The system is updated regularly to reflect changes in property status and department ownership.

B. ACQUISITION AND DISPOSITION PROCEDURES

Issues of appropriate policy and inter-agency mission conflict are most evident around land acquisition and disposition. According to a 1995 study by the Pennsylvania Horticultural Society, the most prevalent problems cited by individuals working in city agencies, community groups and open space advocates were:

- lack of inter-agency coordination and communication
- indiscriminate sale of city-owned lots;
- inability to acquire properties quickly because of legal and regulatory restrictions.⁵

In New York, the City Land Committee was assembled to meet every six weeks to review and make decisions concerning the disposition of city-owned properties and to ensure that the city's actions on vacant land are consistent across departments. The Committee is chaired by the General Services Department and composed of representatives from agencies that have vacant land in their inventory, the City Planning Commission, and the Departments of Housing, Preservation and Development, and Economic Development. Decisions of the Committee are made by consensus to ensure inter-departmental agreement. Reportedly, coordination and communication between agencies has improved the city's ability to plan for vacant land responsibly. Further, the City Land Committee meetings often push department representatives to confront issues of inter-departmental mission conflict.

C. LAND REUTILIZATION PROGRAM AND DISPOSITION POLICY

In Ohio, the state legislature passed a law permitting Cuyahoga County to shorten the period in which owners could redeem their land from five years to two weeks, and added a prosecuting attorney to oversee the acquisition of vacant property. Cleveland's Department of Community Development, Division of Redevelopment, in partnership with Cuyahoga County Prosecutor's office, aggressively seizes tax-delinquent properties to land-bank them for redevelopment and to streamline the foreclosure procedure. After the property is land-banked by the City of Cleveland, it is sold for the amount owed in back taxes, or the market value of the property if the taxes owed are less than the market value. The city is not required to auction properties to the highest bidder, thus preventing owners from buying back their properties with "low-ball" bids. Land-banked lots are defined as "buildable" (4800 sq. ft. or more in size) or "non-

buildable" (lots less than 4800 sq. ft. or with less than 40 ft. frontage). The actual disposition process can take two different tracks: the city can make a gift of the property in "lieu of foreclosure," taking title to tax delinquent properties, removing the taxes from the property, and deeding it to a community group or developer. Alternatively, the city can foreclose and sell the property.

These recent changes in state law allowed Cuyahoga County to increase the number of foreclosures in Cleveland from about 75 per year to 1,500 to 2,000 per year. Cleveland officials report that the aggressive stance of the county and the city has engendered a new activism and interest in developing vacant land at the community level.

D. COMPREHENSIVE NEIGHBORHOOD PLANNING

City officials in Boston describe the treatment of vacant land as part of an overall neighborhood planning strategy. Vacant land is examined on a neighborhood-by-neighborhood basis, keeping in mind three basic questions:

- What does the community need - housing, public facilities, economic development, open space, community gardens, tot lots, etc.?
- What are the interests and goals of the community? What is the community gardener's perspective and the affordable housing provider's perspective on vacant land use?
- What are the physical land use and location requirements? Are there any hazardous waste or other environmental problems?

E. SAVING HOUSING THROUGH RECEIVERSHIP

Cities can exert control over distressed properties where landlords fail to comply with housing codes by purchase or eminent domain. These approaches, however, are both time-consuming and expensive, requiring outlays for purchase, condemnation award, and possible long-term maintenance expenses. Therefore, most cities are not in a position to consider purchase or eminent domain as a primary strategy for dealing with such properties.

Housing receivership, on other hand, may serve as a backup to code enforcement when repeated attempts at enforcing codes have failed; the record of repeated failed attempts becomes the basis of applying to the courts for a receiver over a period of five years. Chicago has used this remedy in over 500 buildings. Part of the success of the program is attributable to the provision for the recovery of the public investment that has been injected into building repairs.

Court-appointed receivers in Chicago have spent millions of dollars to abate dangerous housing conditions in substandard housing, and to save such housing from demolition. The monies the city lent to the receivers were reduced to receivers' certificates which become first liens on the properties, subordinate only

to taxes. The receivers' certificates may be foreclosed by the city if not repaid by the building owner.

Illinois law also entitles the city, when it acquires property through foreclosures of these receivers' certificates, to have all delinquent property taxes abated. The city finances receiverships in its building code violation cases under two programs. The first program is called the Emergency Heat Program (EHP). Under this program, the city contracts with an individual or company to act as heat receiver during an entire winter season, in exchange for which the city pledges to buy the heat receiver's certificates, thereby protecting the receiver's credit and ensuring that all costs of the receivership relating to the provision of heat and the receiver's fees are paid. Thus, when a city inspector's testimony indicates that an owner is not providing heat, the city asks the court to appoint a receiver for the limited purpose of establishing a building gas account (heating) in his or her own name with People's Gas Light and Coke Company (the public utility serving Chicago), repairing or replacing the central heating unit, if defective, and collecting rent to defray the costs of the receivership.

The second program is called the Housing Abandonment Prevention Program (HAPP). Under this program, the city lends funds to receivers (or to owners) to repair or replace basic systems in buildings, including, but not limited to, roofs, porches, electrical wiring and boilers, in exchange for which the receiver will issue a receiver's certificate and transfer it to the City. In these cases, the city asks the court to appoint a receiver when court testimony indicates that there are dangerous conditions that may result in a court order to vacate buildings. These receivers are referred to as general receivers. The receiver manages the building until the court is satisfied that all repairs have been made and that the building conformed with health and safety codes.

In Chicago, buildings can be placed under receivership only if they meet certain criteria regarding conditions. These include the following:

- they must be structurally sound.
- the cost of repairs must not exceed rental income and loans from the Housing Department.
- they must be at least 50% occupied, with the majority of tenants paying rent.

Receivers were also required to file an extensive economic feasibility plan including an operating plan for the building and a capital improvement plan. Selecting a receiver, an individual, company, or neighborhood organization capable of competently managing troubled property is the most critical component of the process.

The receivership process fits into housing policy somewhere between the code enforcement process and the rehabilitation process. It also requires neighborhood and tenant involvement to succeed.

F. OTHER PROGRAMS FOR VACANT LOTS AND DISTRESSED PROPERTY

In Boston, the Department of Inspectional Services has instituted several programs to deal with vacant lots and distressed properties. The intention behind these programs is to use code enforcement aggressively to "encourage" property owners to maintain their property. Otherwise, the city will begin foreclosure proceedings where liens exist. The Department also requires every absentee owner to give the power of attorney to a local attorney.

1. "Clean it or Lien it" program

This program is targeted at unmaintained lots to get owners to keep them clean. Of those lots targeted, 50% were cleaned by the owners. The remainder were cleaned by the city, with liens placed on them for the cost of clean-up. After sufficient liens have accumulated, the city begins foreclosure proceedings. Once the city owns these parcels, the Public Facilities Department (PFD) is responsible for disposing of them. Those under 5,000 square feet meet the city's criteria for the abutter-lot program called Boston Yard Sale. These lots are being sold to abutters for \$500 to \$1,000. Under legislation approved in 1995, the city is no longer required to follow a lengthy advertising and bidding system to sell small foreclosed lots to abutters: these sales increase property taxes and save the city an average of \$200 each in annual clean-up costs. Some larger vacant parcels become part of the buildable lots program through which PFD tries to find buyers and piece together financing. This program is geared toward private-sector contractors, many of whom prepare sites for manufactured housing. (In more difficult neighborhoods, building this kind of housing minimized the problem of stolen supplies.)

2. Project Pride

When property has been abandoned, the Department of Inspectional Services issues notice of nuisance and health code violations. If it is believed that there are drug-related activities occurring, the department boards up the building, secures it, and installs an alarm system. Where taxes are owed, the city begins foreclosure proceedings, which now take about one year to complete. In the department's experience, the more the owner is beleaguered by fines for code violations, court appearances, and arrests, the more likely he is to sell rather than waiting for the foreclosure to be completed.

Once the abandoned buildings become the property of the city, they are turned over to the PFD for disposition. Through an RFP process, many of these buildings were sold for \$1 to first-time home-buyers or to non-profit corporations. The city did not try to collect back taxes on these properties once it acquired them. In order to rehabilitate these buildings, the city established an abandoned housing bank, an

agreement with four banks to provide construction financing while the city provided developer services.

G. "GUT" REHAB VS MINIMAL REHAB

Since the costs of renovations are generally higher than the rent rolls in poor neighborhoods could ever support, the federal government's renovation programs provide below-market rate mortgage money (front-end subsidies) and a guaranteed rental income through subsidies of individual tenants (back-end subsidies), paying the difference between a quarter of tenants' income and the rent needed to support the building's costs and a developer's profit. Complete rehabs of older buildings can cost \$100,000 a unit. Governments must contract with owners to provide long-term rent subsidies, which can be high. For example, a recent project to renovate 1,900 units of subsidized rental housing in Boston was made possible only by a federal guarantee of \$101 million in rent subsidies over 15 years.⁶

Implicit in the "gut rehab" approach is the belief that older neighborhoods must be rebuilt to the highest possible contemporary housing standards, even though the income of residents in these neighborhoods generally cannot support such standards.

If distressed properties can be rescued early enough, then perhaps "minimal rehab" will be sufficient. The "minimal rehab" approach can lower the cost of doing business, reduce rents, and satisfy societal norms for decent housing. Under minimal rehab, housing codes are examined generally in light of both their utility and cost. Thus, construction crews will, for example:

- Retain existing, structurally sound walls even if they need paint and patching;
- Retain existing plumbing and lighting fixtures, if they are functional;
- Retain existing stairwells, even if they are narrower and steeper than what would be built today;
- Install a wooden clothes bar in the corner of a room, rather than a full closet.

The minimal rehab approach keeps costs down by retaining as much of the existing interior as possible. It emphasizes repair over replacement; the goal is inexpensive but functional renovation. In addition, subsidies are limited; no continuing stream of rent subsidies for individual tenants is required.

Between 1987 and 1994, City Homes, Inc., of Baltimore renovated 243 row homes for an average of \$12,000 each. As a result, City Homes was able to charge \$268 a month in rent and to rent to tenants earning, on average, less than \$10,000 a year. The company was able to do this through the "minimal rehab" approach. City Homes did not rely on anything other than the low-interest bonding authority of the state of Maryland; it did not make use of the Low Interest Housing Tax Credit or Section 8 subsidies. Therefore, it accepts tenants not on the basis of need

but on demonstrated ability to pay. Applicants must have a track record of having paid rent regularly for the previous 12 months. Tenants can be rejected on the basis of subjective criteria such as their housekeeping habits in previous residences. Rents are typically slightly beyond the means of welfare recipients. But the median household income is only \$9,828, and 71% of tenants in recently renovated buildings earn less than 30% of the Baltimore area median income. The combined effect of reduced costs through minimum rehab and City Homes screening policies is the creation of new low-end housing for non-rent subsidized, low-income tenants.

H. CREATING HOMEOWNERSHIP OPPORTUNITIES

The Nehemiah Plan develops attached, single-family homes, owned by their residents, built in what had been some of New York City's most derelict areas. Since 1984, the nonprofit Nehemiah organization has built some 2,500 homes, almost all small, detached 1,100-square-foot rowhouses built on 1,800 square foot-lots and selling for between \$51,000 to \$73,000 on cleared land in older neighborhoods of Brooklyn and the Bronx. In Brooklyn, 45% of buyers have come directly from public housing; in the Bronx, the figure is 80%.

The project is financed by two consortia of African-American churches (organized by the Industrial Areas Foundation). The church groups provide no-interest financing by raising enough capital to get construction underway. Home sales replenish the capital and, through an interest-free revolving construction fund, allow the next round of construction to begin. In addition, Nehemiah home buyers have been aided by low-interest loans (65%) from the bond-financed New York State Mortgage Association, which also provides a \$15,000 "soft second" mortgage,,a no-interest loan which, however, is payable in full on resale of the homes. (Resale is restricted for the first ten years.)

Nehemiah has relatively stringent buyer-screening requirements. Buyers must have been employed at least two years and must show tax returns to prove it. They must not have declared bankruptcy within the previous seven years. They must post a five percent down payment, and they must not owe more than \$1,000 credit-card debt. New York City helped to lower the ultimate house price by donating 20 cleared areas to Nehemiah. It also allowed the building of 20 row houses per acre, since higher density keeps down the cost of housing.

In Racine, Wisconsin, the Housing Authority of the county of Racine has used vacant, county-owned land for something it calls Project Pride: privately built, low-cost homes, the cost of which is brought down by donated land and infrastructure. The initiative successfully catalyzed construction of nine homes, concentrated in poorer parts of a depressed industrial city of Lake Michigan. Homes have been built for just \$45 per square foot and sold for less than \$50,000 to families earning 80 percent or less of Racine County's median \$36,000 income. Costs were kept low by getting the city to agree to permit construction without

garages or basements and a limited lot setback (without a variance, a 40-foot lot would have required a 30-foot setback, making it essentially nonbuildable.) The first three houses built sold for \$32,000, \$34,000 and \$42,000 and spurred the rehabilitation of five others, which created an oasis of safety and rising property values in a dangerous area. One home sold after construction three years ago for \$42,000 and was resold for \$48,000.

V RECOMMENDATIONS

As a result of reviewing programs in several other cities and discussing the problem of abandoned and distressed properties with municipal and state agencies, the Research Bureau has compiled a set of recommendations which may help Worcester's public officials address the City's needs and move toward the establishment and implementation of a community development agenda. While there is no panacea, utilizing the appropriate strategies in each case may lead to the desired result of reducing the loss of valuable property, reversing the trend of a shrinking tax base, and revitalizing neighborhoods.

1. The City should establish an overall neighborhood and community development agenda. This should include a policy for managing and disposing of its inventory of vacant lots and abandoned buildings, managing open space, and developing housing. Is the City trying to encourage town lots, community gardens, or private ownership? What kind of housing is needed, how much for each group targeted, low and middle income, renters and home owners, and what is the plan for developing it?
2. The City should utilize fully the resources available for helping cities to implement their community development agenda. This includes applying for funds from local and national foundations and all state and federal agencies dealing with neighborhood and community development. It should also include borrowing from banks and insurance companies. For example, Boston deposited some of its CDBG funds into local banks. For every dollar deposited and held as security, the bank would lend four dollars.
3. The Office of Planning and Community Development should continue to work with neighborhood and community development organizations, as it has in the neighborhoods of Green Island, Piedmont Street, Shrewsbury Street, and Highland Street to prepare comprehensive plans for each neighborhood. These should include plans for vacant lots, abandoned buildings, combining abutting parcels, reuse of former industrial sites, etc. The planning process should include review of such issues as zoning regulations, density and market conditions. The City's Geographic Information System, with its ability to map all the land parcels and pertinent information, should greatly facilitate this process. OPCD should determine which parcels, if taken by eminent domain and appropriately redeveloped, would contribute to significant revitalization of a neighborhood. The power of eminent domain should be used under such circumstances. A

neighborhood plan is the first step for addressing distressed property problems. The success of the plan, however, is measured by the resources put toward it, and the actual implementation of the various components.

4. The City should contract with a consulting firm with planning, urban design, traffic, land use, housing, and economic development expertise to implement these neighborhood plans.

5. The City should develop an integrated land records database. An accurate and comprehensive inventory of property-based information that can be shared by public agencies and authorities is necessary for planning and land management purposes. In order to achieve this goal, GIS needs additional staff.

Land records data items should be available to City agencies for planning and management purposes. Extracts from existing departmental databases should be combined to form an integrated property-based information system. While the responsibility for creating and maintaining specific databases—such as property tax assessments or building code violations—should remain with individual departments, property records must be accessible to other agencies through a comprehensive information search and retrieval system. When combined with the expanding mapping and analysis capabilities of the City's GIS, these data will become an essential resource for developing and implementing neighborhood plans.

6. The inter-agency task force that has been meeting for the past several months to develop policies for faster acquisition and disposition of distressed properties should be converted into a permanent neighborhood development cabinet. It should be modeled after the successful economic development cabinet created by the City's Chief Development Officer. It should meet on a regular basis to expedite the implementation of neighborhood plans. It should include representatives from OPCD, Public Health and Code Enforcement, Law Department, Treasurer's Office, Assessor's Office, and Departments of Public Works, Police, Fire, and Parks, Recreation and Culture. It should report quarterly to the City Manager and the City Council on its progress. Neighborhood groups should serve in an advisory capacity to the development cabinet.

7. The City Council should work with the state legislative delegation to introduce legislation that would shorten the period during which owners can redeem property on which there are liens. In Ohio, that period was reduced from five years to two weeks. The Treasurer should work with the Land Court to expedite the time it takes to complete the foreclosure process. In Boston, that process has been reduced to one year. The Department of Public Health and Code Enforcement should reduce the one-year period allowed a property owner to make repairs on a building. An indication of progress in correcting violations should be required within a couple of months.

8. The City Manager should utilize the provisions of M.G.L., Chapter 58, Section 8. Under this statute, he can request of the Commissioner of Revenue to authorize the City's assessor to grant abatements for abandoned residential property of six units or less that are proposed to be rehabilitated into six units or less. While the city would forego the back taxes, the rehabilitation of such property would begin to generate revenue for the city. Since many abandoned properties have accrued more in liens than the property is worth (as in some of the examples noted earlier in this report), these properties will not be rehabilitated without substantial subsidies from the state and federal government, part of which must be used to pay off the liens. If the statute to abate taxes on such properties were utilized, the cost of acquiring the property would be substantially reduced to the buyer, the likelihood of rehabilitation would be greater, and the City's tax base and future revenues would increase.

9. The City should review the assessment of property in low-income neighborhoods to determine whether it is over-assessed compared to more expensive housing. If it is, property taxes should be reduced accordingly, since the property tax assessment rate has a large and significant effect on abandonment rates according to a 1992 study of abandonment rates in New York City.⁷

The study's authors found that over-assessment of low-income neighborhoods aggravated property-owners' cash-flow problems because they could not raise rents sufficiently to cover their maintenance plus high taxes. Abandonment led to fires and overcrowding in nearby buildings, which promoted further fires and abandonment. In addition to losing a revenue-generating asset, the abandoned buildings became a revenue-draining liability because of the need to house displaced tenants, to cope with crime and fire which abound in vacant buildings, and to cover demolition of units in blighted areas.

This study showed that assessment rate reductions in low-income neighborhoods need not entail either higher tax payments for other city property owners or reduced tax revenues available to finance city services. The City would probably save money by reducing assessment rates on buildings where the probability of abandonment is high because of the costs that will be incurred as a result of abandonment.

10. The City should provide landlord training seminars on a regular basis. The Attorney General's Office would be willing to help conduct a landlord training seminar as it has in Chelsea and Waltham. This seminar would explain (1) landlords' obligations to their tenants and to neighbors of the properties that they own; (2) what can happen to them or their properties if they do not live up to their obligations (and allow their properties to be over run with drug dealers or to decay); (3) how they can avoid renting to drug dealers and evict drug dealers or abusers of drugs from their properties.

11. The City should avail itself of the law allowing prosecution of owners/landlords as was done in Cleveland. M.G.L., Chapter 139, the nuisance law, relates to prosecuting owners/landlords, both criminally and civilly. The Attorney General's Office would be willing to consider filing civil nuisance actions against owners/landlords, seeking to close the offending property, or parts of the offending property, for up to a year. Criminal prosecution of landlords could be pursued by either the Attorney General's Office or the District Attorney's Office. If a landlord is convicted of aiding and abetting a nuisance, he faces the possibility of being jailed for up to one year or a \$1,000 fine, or both. The Attorney General's Office does not need any violations of the building codes or health codes to file a nuisance action. Nor does it need a distribution violation of the Controlled Substances Act. Although the property will not be forfeited to the government, the owner/landlord can be enjoined from allowing the property to be used for any violation of the Controlled Substances Act (including mere possession of a controlled substance), prostitution, assignation, lewdness, or the illegal keeping, sale, and manufacturing of alcoholic beverages.

12. The City should design incentives that encourage property owners to pay their delinquent taxes before their properties enter the foreclosure process. These include a high visibility ad campaign that publicizes names and amount owed by the worst offenders, and denial of various licenses and permits for individuals who are delinquent on their property taxes.

13. The City should continue to use receivership as a tool for dealing with housing that has serious code violations. In 1993, M.G.L., Chapter 111, Section 127I was enacted to provide for the appointment of receivers by the courts of the Commonwealth to undertake and oversee the rehabilitation of residential properties with persistent, unremedied code violations. The legislation was intended to permit tenants and other occupants of residential properties to seek the appointment of such a receiver with the independent authority to undertake required repairs after notice and an opportunity to cure was provided to the landlord and creditors of record.

The Receivership Statute has two very important features. First, it provides a limited scope of receivership liability related solely to the work actually undertaken at the property. Second, the costs and expenses incurred by the receiver in fulfilling its duties become a priority lien recoverable against both the landlord and the property prior to any pre-existing liabilities other than outstanding real estate taxes.

14. To prevent the loss of viable properties to demolition, the City Manager and the City Council should expand the powers of the City Manager's Enforcement Team (CMET). They should develop procedures to identify and re-use recently vacated residential properties before they are vandalized or suffer serious damage. A direct reporting system, such as a telephone hot line, needs to be developed to allow individuals and community groups to inform the City about newly vacated

properties. This "rapid intervention unit" should have adequate resources to perform this function. The reporting system should be publicized at community meetings, through community policing and public affairs events, and via the municipal access cable-TV channel.

15. The City Council should approve a demolition delay ordinance for historic buildings. The purpose of this ordinance would be to delay demolition by six months during which time an attempt would be made to preserve and protect historically significant buildings and landmarks within the City by encouraging owners of such buildings to seek out persons who would be willing to purchase, preserve, rehabilitate or restore such buildings rather than demolish them.

16. The City should adopt an abutter lot program similar to the one used in Boston. The City's ownership of 130 or 12% of all vacant lots is not insignificant. Even if the City sold only half of these, it could make an important difference in the appearance and desirability of some neighborhoods.

17. The City should file a Home Rule Petition as was done in Boston to modify Chapter 30B, the Uniform Procurement Act, so the City is no longer required to follow a lengthy advertising and bidding system to sell small foreclosed lots to abutters.

18. The City Manager and the City Council should work with the state legislative delegation to approve legislation in the following areas:

a. Provide a tax credit program for individuals purchasing homes in inner-city neighborhoods;

b. Provide additional authority to the Central Massachusetts Economic Development Authority to be used in land assembly and redevelopment of neighborhoods;

c. Provide additional funds for selective demolition in support of neighborhood revitalization.

19. The City should develop a community-based "Land Stewardship Demonstration Program" for vacant-land maintenance. The City should work with the Massachusetts Audubon Society, Worcester Common Ground, the Regional Environmental Council or other groups to develop a target demonstration program for the long-term maintenance of vacant land, modeled on community land trusts. The objectives of land trusts are to acquire, hold and maintain land for community benefit. Such a benefit may take the form of new housing development, making plots of land available for neighborhood gardening, or providing permanent open space for the community.

Under this Land Stewardship Program proposal, the City would donate surplus public property in a targeted area to a land trust organization. This organization might be an existing community land trust or a capable community development corporation. The organization would then be free to use this new capital asset in its neighborhood revitalization efforts. The City might also help the land trust organization to acquire other properties, as needed, to create a site assemblage that is appropriate for reuse. Any transferred public land would be subject to specific performance requirements on the part of the receiving organization. One such requirement should be that the land be actively tended and well-maintained, and not just permitted to remain fallow. Other requirements might include development controls similar to those used in urban renewal areas. The City would retain reversionary rights to this land in the event performance requirements are not met.

The land trust organization could use its properties for any purpose permitted under its existing zoning classification. The City might also support zoning changes or variances if a proposed use was in accord with a sanctioned neighborhood plan. This land might be used for new residential or commercial development, or could remain open space. (It should be noted that community land trusts pay taxes on the property they own.)

20. The City should consider the programs for "minimal rehab" in Baltimore and inexpensive homeownership in New York City to determine whether such approaches are suitable for adoption here. These programs should meet building and health codes.

FOOTNOTES

1. "The TOADS: A New American Urban Epidemic," *Urban Affairs Quarterly*, Vol. 25, No.3 (March, 1990), p. 438.

2. *Ibid.*, p. 439.

3. *Ibid.*, pp. 444-446.

4. Howard Husock, *Repairing the Ladder: Toward a New Housing Paradigm* (Reason Foundation, Policy Study No. 207, July, 1996), p.6.

5. *Urban Vacant Land: Issues and Recommendations*, September, 1995, p.47.

6. "HUD, MHFA Sign Contract Locking in \$101M for Project," *Boston Globe*, Real Estate Section (October 14, 1995), p. 29.

7. David Arsen, "Property Tax Assessment Rates and Residential Abandonment: Policy for New York City," *American Journal of Economics and Sociology*, Vol. 51, No1 3 (July, 1992), pp. 361-377.