CITY OF CAMBRIDGE
Community Development Department

IRAM FAROOQ
Assistant City Manager for Community Development

SANDRA CLARKE
Deputy Director
Chief of Administration

KHALIL MOGASSABI
Deputy Director
Chief of Planning

Affordable Housing Trust

January 24, 2019
Ackerman Room

AGENDA

- Old Business
- Project Update
- New Business
  - Homeownership Resale Fund
  - 100%-Affordable Housing Overlay District
  - Fresh Pond Apartments (executive session)
- Adjournment

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Cambridge Affordable Housing Trust

Status of Active Commitments

January 24, 2019

	Active Projects	Sponsor	Rental Units	Ownership Units	Status	Total Cost	Trust Commitment	Loan Amount Per Unit	Trust Approval Date
1.	HomeBridge program	CDD	*currently approved buyers: 5*	7	58 scattered site units purchased by first time buyers to-date. New program rollout June 2017; new HomeBridge name, inclusion of "work in Cambridge" eligibility; pilot 120% AMI program. Two units have closed in 120% pilot. Five units under 100% have closed.	N/A	$7,200,000	1-br: 40% sale 2-br: 45% sale 3-br: 50% sale	May 2011
2.	Homeownership Resale Program	CDD	*currently active units:*	11	Re-purchase, rehab and re-sale of affordable homeownership units to new homebuyers.	N/A	$3,500,000		December 2011
3.	Harvard Properties	HRI	50 Trowbridge #6	*Currently active units: 1*	100-unit portfolio acquired. Rehab of units on-going upon first vacancy in each unit, building systems and exterior renovations ongoing per approved portfolio plan. ~86 units completed to-date.	$7,220,999	$750,000	$7,500	March 1997
4.	Bedrick Properties	HRI	34 Willow St #3	*Currently active units: 1*	95-unit portfolio acquired. Rehab of units on-going upon first vacancy in each unit, building systems and exterior renovations ongoing per approved portfolio plan. ~64 units completed to-date.	$15,615,000	$5,586,000	$58,800	November 1999
6.	671-675 Concord Ave	HRI	98		Phase 1 site work nearing completion, Phase 2 underway.	$58,228,753	$23,803,176	$242,890	March 2016
7.	Frost Terrace 1971 Mass Ave	Capstone Hope	40		Preparing to begin site work in advance of full construction closing in Spring 2019.	$27,219,486	$10,785,358	$269,634	March 2016 and December 2018
8.	Vail Court (139 Bishop Allen)	TBD	TBD	TBD	Trust and City hosted public meeting on 7/24/17 to hear from the community on affordable housing needs and ideas for the redevelopment of Vail Court. Additonal public meetings will be scheduled but are currently on hold pending the City receiving a response from the Court regarding the legal action taken by former owner.	TBD	TBD	TBD	N/A
9.	Squirrelwood (multiple addresses, corner of Broadway and Market)	JAS	23		JAS building 23 new units as part of the consolidation/renovation of Linwood and Squirrel Brand Apartments; preparing for closing in Spring 2019.	$9,505,726 (new units only)	$4,400,000	$191,304	January 2018 and December 2018
10.	2072 Mass Ave	Capstone Hope	TBD	TBD	Capstone/Hope purchased site in April 2018.	TBD	$3,800,000	TBD	February 2018
		Total Units	**161**						

Cambridge Affordable Housing Trust

Status of Active Inclusionary Housing Developments

January 24, 2019

	Approved Active Projects	Developer	Status	Rental Units	Ownership Units
1.	88 Ames Street	Boston Properties	Covenant Recorded 1/28/16. Tenant selection nearing completion	36	
2.	262 Monseignor O'Brien Highway	Minco Corp.	Covenant Recorded 3/8/16. Buyers selected. Five of six units closed.		6
3.	88 Cambridge Park Drive	Hanover Company	Covenant Recorded 9/30/16. Tenant selection underway.	30	
4.	77 New Street	Abodez	Covenant Recorded 9/14/16. Under Construction.	11	
5.	253 Walden Street	Observatory Hill Apartments LLC/ Eric Hoagland	Covenant Recorded 11/18/2016. Under Construction	3	
6.	95 Fawcett Street	Ed Doherty	Covenant Recorded 12/29/2016. Under Construction		5
7.	10 Essex Street	Morris Naggar	Covenant Recorded 3/9/2017. Under Construction.	5	
8.	1699 Mass. Ave.	Lotus Harvard Enterprise	Covenant Recorded 3/30/2017; revised 6/28/18. Under construction	2	
9.	305 Webster Ave.	305 Webster Ave. Condominiums LLC	Covenant Recorded 8/11/17. Under Construction		4
10.	47 Bishop Allen	Twining	Covenant Recorded 10/13/17. Construction nearing completion.	3	
11.	St. James (1991 & 2013 Mass. Ave.)	Oak Tree	Covenant Recorded 11/21/17. Under Construction	5	
12.	Mass & Main (multiple addresses,Mass Ave. & Columbia St.)	Twining	Covenant Recorded 11/24/17. Under Construction	58	
13.	249 Third Street	Equity	Covenant Recorded 12/22/17. Under Construction	12	
14.	Lane &Games (195&211 Concord Tpk.)	Criterion	Covenant Recorded 3/16/18. Under Construction	44	
15.	14-16 Chauncy Street	Chestnut Hill Realty	Covenant Recorded 4/20/18. Under Construction	1	
			Total Units under IHP Covenants:	**891**	**rental**
				211	**ownership**
				1102	**total**

	Active Pipeline Projects	Developer	Status	Rental Units	Ownership Units
1.	16-18 Elliot Street	Charles River Holdings	On hold.	2	
2.	605 Concord Ave.	Abodez Acorn	IHP plan review complete. Convenant being drafted.	7	
3.	Alexandria - 50 Rogers Street	Alexandria	Covenant being drafted. Includes middle income units.	~47	
4.	107 First & 22 Hurley Streets	Urban Spaces	IHP plan under review	~16	
5.	95-99 Elmwood	95-99 Realty	Waiting for IHP plan to be submitted	~4	

DRAFT
CAMBRIDGE AFFORDABLE HOUSING TRUST
MEETING MINUTES
December 13, 2018

Ackerman Room, Cambridge City Hall
795 Massachusetts Ave.

Trustees Present:	Peter Daly, Florrie Darwin, Gwen Noyes, Cheryl-Ann Pizza-Zeoli, Susan Schlesinger, Bill Tibbs
Trustees Absent:	Louis DePasquale, James Stockard
Staff Present:	Chris Cotter, Housing Director; Cassie Arnaud, Housing Planner; Janet Haines, Associate Housing Planner; Linda Prosnitz, Housing Planner;
Others Present:	Councillor Sumbul Siddiqui

The meeting was called to order at 4:12.

Upon a motion moved and seconded, it was VOTED: To approve the minutes for the meeting of Thursday, November 29, 2018 as submitted.

PROJECT UPDATE

Squirrelwood – Preparing to close; request for permanent funding was approved at December Trust meeting, as described below.

Vail Court - Demolition of building is complete. The redevelopment process remains on hold pending legal action taken by former owner.

Frost Terrace – Preparing to close; request for predevelopment increase and permanent funding was approved at December Trust meeting, as described below.

Concord Highlands - A groundbreaking ceremony was held October 5. Construction is underway.

Homebridge – Two units have closed in 120% pilot; five under 100% have closed. A three-bedroom unit has recently closed.

NEW BUSINESS

Squirrelwood Infill Development – permanent financing request

Staff presented a request to make final the Trust's conditional financing commitment for Just A Start's Squirrelwood infill project. At the January 2018 meeting the Trust voted to conditionally approve up to $4,600,000 in financing to Just A Start for the construction of 23 new affordable rental units on their Linwood Court property. Since that time, JAS has completed permitting and assembled financing. The final Trust funding request has been reduced to $4,400,000 and may be further reduced depending on final construction pricing. Staff will continue to work with JAS to assess options to both reduce costs and maximize resources, all of which would offset Trust funding.

In addition to the request for permanent financing, JAS requested that the existing outstanding Trust loans on the two properties be consolidated. The loans would be amended and restated to reflect the new ownership entity and a new affordable housing covenant will be entered into as a part of the consolidation.

Before voting to approve the request, Trust members had a brief discussion about the process used to present requests to the Trust. Several PRC members noted that staff receive a range of materials from developers requesting Trust funding and suggested that it could be helpful if staff created a set of forms for developers to use to make review easier for both staff and Trust members. Another member suggested that staff create a form that is used to present requests to the Trust. It was also agreed that staff would work with the Trust to develop a set of Trust funding guidelines which could be shared in advance with developers and which could make the underwriting and review process easier and more consistent across projects. For instance, it could be helpful for the Trust to establish policies regarding loan terms such as repayment, cash flow, and developer fee payments.

In addition to creating a more uniform application and review process, one Trust member asked whether funding requests could be put into more context so that funding needs can be better evaluated and understood by the Trust. Staff noted that anticipated funding requests are included in staff's funding projections and that they would continue to share both funding balances and projections with the Trust on a quarterly basis.

Upon a motion moved and seconded, the Trust voted to approve Just A Start's request for up to $4,400,000 in permanent financing for the new construction of 23 rental units and to amend the terms of existing Trust loans as further outlined in the Trust briefing material.

Frost Terrace Apartments – Permanent Funding Request

Staff presented a request for up to $10,785,378 in permanent financing from the Trust for Frost Terrace Apartments, a 40-unit new construction project being developed by the team of Capstone Communities LLC and Hope Real Estate Enterprises LLC (Capstone/Hope). This request includes $6,700,000 in acquisition financing and $480,000 predevelopment financing previously provided.

Staff provided an overview of how the project had evolved since acquisition of the sites, explaining that changes made during the permitting process resulted in a more expensive project. For instance, the size of the project was reduced and new design elements were added. Staff will continue to work with them through this process, in preparation for a full construction closing in Spring 2019.

In addition to the permanent request, Capstone/Hope requested that a portion of the funding be made available early for predevelopment and early stage site work. To date, the Trust has provided $480,000 in predevelopment funding for the project. Capstone/Hope is requesting that an additional $1,670,996 be made available prior to full construction closing to be used to refinance existing predevelopment funding and to pay for additional pre-construction activities.

Before approving the request, the Trust discussed the impact which the reduction in project size had on costs and suggested that this is useful information to incorporate into the ongoing discussions regarding an Affordable Housing Zoning Overlay. It was also suggested that it might

be useful to schedule another meeting between the Trust and Planning Board to talk about the challenges of affordable housing development and the impact design changes may have on feasibility. Trust members noted that it remains important for affordable housing properties to be attractive, noting that they believe that many affordable housing projects look as good or better than market-rate housing. Trust members noted that it is important for the community how good affordable housing looks, as the discussions regarding the proposed overlay get underway. All agreed that it would be helpful to create new Trust materials which include images of Trust-funded affordable housing. Staff noted that 2019 marks the Trust's 30th anniversary and that there already are plans to produce a new Trust brochure.

Following this discussion, upon a motion moved and seconded, the Trust voted to approve Capstone/Hope's request for permanent financing up to $10,785,378, of which $7,180,000 has already been disbursed for acquisition and predevelopment and of which $1,670,996 may be made available before the full construction closing for early stage activities as outlined above. In addition, the Trust voted to grant Capstone/Hope flexibility to convert up to four 1-bedroom units to studios if advisable to maintain costs.

155 Willow Street – new funding request

Staff presented a request from the Cambridge Housing Authority for up to $6,522,388 for the construction of a new 26-unit affordable rental housing development at 155 Willow Street in East Cambridge. Their plan is to use modular construction. Staff said that they CHA had reviewed different configurations and had narrowed the project down to one of two proposed 26-unit scenarios. While both scenarios have four 3-bedroom units, one option has more 2-bedroom units resulting a higher development cost and greater need for Trust funding, while the other option has more 1-bedrooms resulting in a lower Trust funding request. Some Trust members expressed a preference for the option with the most family-sized units while others said that they were neutral as they recognized that the CHA has a greater need for one-bedrooms.

It was explained that the CHA is electing to use modular construction because they want to familiarize themselves with the technology to see if it might be helpful in reducing costs in larger projects. Staff said that the PRC recognized the value of developing familiarity with new approaches such as modular construction and suggested that the Trust require the CHA to work with staff to identify ways to include other local affordable housing developers in the modular construction learning experience.

In terms of costs, staff said that the CHA is estimating a total development cost (TDC) of between $7 million to $8 milliondepending on building configuration. The CHA attributes these higher than typical costs primarily to the CHA procurement requirements. It was noted that the fact that the CHA is contributing land at no cost helps keep the numbers down to levels more in-line with what we might expect for new construction of family-sized units.

Trust members felt the Willow Street project was a good project but expressed concerns about the cost. Given the fact that the costs are high and the project is still in its early stages, the Trust recommended that any financing approval at this time be conditional and subject to further review as project details become more clear. Trust members noted that the project is worth pursuing, however, several members asked for more information on why CHA development costs are so high and what possible options exist to reduce costs. It was suggested that the CHA meet directly with the Trust at some point in the future to help the Trust better understand the reasons for the costs and the range of potential options.

One Trust member expressed reservations about making a commitment at such an early stage. While others acknowledged this concern, most were comfortable with an early commitment as long as the vote would be conditional, and a final request would be brought back to the Trust. In addition, members noted that the Trust often makes early commitments when many details are still unknown, such as in cases where the Trust is approving the acquisition of a site, and that a Trust commitment would make the project more competitive in the DHCD funding round. In response to a question regarding what other projects were ready for the state's 2019 funding round, staff said that it had been expected that Vail Court would have been in this round, but that given the delays with Vail Court, the Willow St project would be the only application.

After a discussion, it was suggested that the proposed vote be amended to expire on the earlier of December 31, 2019 or if the CHA receives notification from DHCD that the project would not be in the Spring funding round.

Upon a motion moved and seconded, it was voted to conditionally approve the CHA's request for up to $6,522,388 in Trust financing as described in the Trust briefing materials.

Preference Policies

The Trust continued prior discussions regarding recommended changes to the preference system for the rental and homeownership programs. Recommendations will be forwarded to the Housing Committee for discussion. In preparation for that discussion, staff have drafted a g a detailed memo for review by the Trust, and will update information shared with the Trust with charts and graphics to illustrate the information in consultation with members of the Trust's ad hoc Preferences Committee. Copies of the draft member were distributed and reviewed by the Trust. One member suggested using the phrase "to greater advantage families with children" in description of the preferences. There were also questions about whether the definition of residency documentation would be broadened, which staff said was being discussed.

The Trust reiterated its recommendation that local preference not be extended to former residents, particularly given fact that the CHA already provides a path back to Cambridge for tenants with vouchers. A graphic will be created to help illustrate and put the recommendations in context to help highlight the impact of the recommended changes. For instance, before having extensive discussions regarding eliminating or expanding a particularly preference, it is useful to how many units this would impact and how many households are likely to fall into that preference group. The Trust agreed to share any final feedback with staff so that staff can get the full packet to the Co-Chairs of the Housing Committee.

Other Business

Before adjourning, the Trust discussed where we are with regard to the 100%-affordable housing zoning overlay process. One member invited Trust members to participate in ongoing discussions and to weigh in to support the overlay as opportunities arise. Trust members proposed coming up with an action plan, with a schedule, to help move it forward. Staff agreed and said that materials are in the process of being prepared and that a schedule would be produced once the Housing Committee meeting is scheduled. It was agreed that the overlay would be discussed in greater depth at the January Trust meeting.

ADJOURNMENT

The meeting adjourned at 6:05 PM. The next meeting date is January 24, 2019.

Materials:

- Recommended Changes for Preferences in Resident Selection Policies (Draft memo)
- Squirrelwood memo (funding request)
- Frost Terrace memo (funding request)
- Willow Street memo (funding request)
- Meeting Minutes from the Trust's November 29, 2019 meeting.
- Project Update

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MEMORANDUM

To: Cambridge Affordable Housing Trust
From: Christopher Cotter, Housing Director and Cassie Arnaud, Housing Planner
Date: January 24, 2019
Re: Funding Request for Preservation of Fresh Pond Apartments

Staff is requesting that the Trust approve a preliminary, conditional commitment of up to $18,000,000 in Trust funding to preserve Fresh Pond Apartments. These funds would be paid directly to the owner in exchange for preserving affordability at Fresh Pond Apartments for another 50 years. In addition to the $18 million being requested, it is anticipated that up to an additional $5 million may be needed to capitalize a rent phase-in reserve and to complete the transaction. We have reviewed the details of the proposed preservation plan in depth with the Project Review Committee and they recommended that we bring this request to the Trust for full review and approval, as described below.

Background:
As you may recall, Fresh Pond Apartments is a 504-unit affordable rental development located on Rindge Avenue in North Cambridge. Fresh Pond was built in the late 1960s under a now defunct federal housing finance program which provided below-market financing in exchange for a period of affordability. Approximately two-thirds (338) of the units receive funding through a project-based Section 8 contract through HUD and the remaining 166 units do not receive HUD funding but are kept affordable under the terms of the original affordable restrictions. Those restrictions were extended in 2000 and are due to expire at the end of 2020.

Staff have been in active discussions with the owners of Fresh Pond Apartments on what would be needed for them to agree to extend affordability beyond 2020. The owners have expressed a clear interest in preserving Fresh Pond and have been working cooperatively with staff on a plan.

Preservation Plan:
After assessing a range of possible approaches, we have settled on a plan which involves two main steps.

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The first step is to preserve the 338 HUD Section 8 units by extending the HUD Section 8 contract for another twenty years, the longest period allowable by HUD. The owner will agree to extend the HUD Section 8 contract as long as HUD agrees to increase the Section 8 rents. This rent increase can be achieved through a "HUD Mark up to Market" (MUTM) transaction, an approach which has been used successfully at several other former expiring-use properties in Cambridge. In exchange for our supporting the owner's MUTM request to HUD, the owner will have to agree, in writing, to continue to renew the Section 8 contracts in the future.

The second part of the transaction is to preserve the remaining 166 units which do not receive rental subsidies from HUD. This step will involve paying the owner the difference between the market value of the property if it were to be converted to market-rate after 2020, and the restricted value if it were to remain affordable at affordability levels we determine. In exchange for this "value differential" payment, the owner will need to agree to maintain affordability of these 166 units for another 50 years at affordability levels we determine now.

At this time, we estimate the "value differential" to be between $17 million to $18.5 million. This estimate is based on a set of assumptions, some of which we control, some of which must be negotiated with the owner, and some of which depend on the timing of various aspects of the transaction. For instance, while we can determine the affordability mix, we must reach agreement with the owner on assumptions such as rents, operating costs, and the interest rates used to calculate the value. Similarly, the timing of the MUTM transaction and the levels of rent increases approved by HUD will impact the figure.

We believe that we are close to reaching agreement with the owner on most assumptions, and that the final figure will need to be determined once we know the timing and details the preservation transaction. While we could wait until 2020, when most details will be known, we believe that there is substantial value in reaching agreement with the owner now, at least on methodology and the terms, with the potential option to adjust the final figure up or down before finalizing the transaction. As a result, we are proposing that this request for up to $18 million be conditioned on staff coming back to the Trust to confirm the final funding amount needed.

<u>New Affordability Requirements and Phase-in Reserve:</u>
We are proposing that the new affordability requirements be set to roughly mirror the income mix of existing tenants at Fresh Pond. Using this approach, 90% of units (454 units) would remain affordable to households earning up to 80% AMI, 6% (32 units) would be affordable to households earning 80-100% AMI, and 4% (18 units) would be affordable to households between 100-120% AMI. We may recommend amending this income mix if the income profile of existing tenants changes substantially before we complete the transaction.

In the meantime, we are evaluating the impact which the new income mix will have on existing tenants. While tenants in existing HUD Section 8 units and those with existing Section 8

mobile vouchers should not experience a rent increase, most other tenants will see rent increases as current rents for many residents have been capped at extremely low levels.

In order to help transition these tenants to the rent structure under the proposed preservation plan, we are also developing a plan to create and fund a rent phase-in reserve. The reserve would be held in escrow by a third party and the City/Trust would be able to recapture funds over time if they are not needed. We are still analyzing various phasing options but anticipate offering more generous phasing to lower-income tenants and more rapid phasing to higher-income tenants. In addition, we are exploring ways to incentivize eligible tenants to take, and hopefully project-base, any Enhanced Vouchers which are expected to become available from HUD through the preservation transaction. At this time, we estimate that up to $5 million may be needed for this reserve. We have discussed this approach with PRC and the owner and want to begin discussion of this approach with tenants and advocates.

RECOMMENDATION:

While we recognize that $18 million is a substantial funding request, especially when combined with funding for a phase-in reserve, the successful long-term preservation of Fresh Pond Apartments would be an enormous achievement, ensuring that literally hundreds of low- and moderate-income Cambridge families can remain in the community. While the owner has been open to and supportive of finding a preservation solution, they have the right to convert to market-rate housing if we cannot reach agreement on terms. The cost of losing this affordable resource to the market would be devastating and the cost to replace these 504 units would be prohibitive.

A combined total commitment of $23 million is in line with our previous estimates of funding needed to preserve affordability of the 504 affordable units at Fresh Pond Apartments and what we have used in our funding projections. A commitment of this amount, however, will require appropriation of additional City funds to supplement Trust funds as we have discussed. This preservation transaction would take place in FY2020. We will finalize the plan to fund this commitment in the coming months as we refine the total amount of funding needed, assess revenue available to the Trust in FY2020 and work with the City Manager and City finance team to appropriate additional funds needed to fully fund this commitment.

We discussed the details of the proposed transaction with the Project Review Committee in depth over the course of two meetings earlier this month. After discussion, they recommended that we bring this request to the Trust for review and approval. However, they recommend that approval be conditional and subject to further review as details become more clear.

Specifically, the PRC recommends that the Trust approve the request for up to $18,000,000 in Trust financing for the preservation of Fresh Pond Apartments, as described above and subject to the following conditions:

- The conditional funding commitment should be time-limited and should expire on December 31, 2019 unless staff has brought a final request back to the Trust for final approval;
- Final Trust approval shall be subject to the following:
    - Trust approval of final preservation plan;
    - Trust approval of process for formalizing the preservation plan, such as a Memorandum of Understanding, agreement, contract, or other legal structure;
    - Trust approval of final funding requests for both the "value differential" payment to the owner and the "rent phase-in" capitalization amount;
    - Trust approval of the process for monitoring and maintaining affordability over time, and monitoring use of rent phase-in reserve, including satisfactory provisions for City/Trust to recapture excess rent income and/or reserve funds that are not needed;
    - Appropriation of City funds necessary to fulfill this commitment.

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MEMORANDUM

TO: Cambridge Affordable Housing Trust

FROM: Christopher Cotter, Housing Director
Anna Dolmatch, Housing Planner

DATE: January 24, 2019

RE: Resale Funding Request

In 2006, 2008 and 2011, the Affordable Housing Trust approved a combined $3.5MM in funding for the Resale Fund. The fund was intended to revolve and sink by providing temporary loans for the repurchase of existing units, as well as permanent subsidy for necessary rehab work and price reduction to keep the units affordable.

Since 2006, the City has exercised its repurchase right on more than 100 units. At this time, the Resale Fund balance has been fully extended in short-term loans and permanent investment. In order to continue to manage the ownership stock and maintain unit quality and affordability, the Resale Fund should be increased to support the projected needs for the foreseeable future. The portfolio of affordable homeownership units staff is managing upon resale through this fund now totals close to 550 units.

When the first two appropriations were requested, there had been very few resale units and we did not have a clear sense of what the ongoing needs would be. The third appropriation was intended to ensure that the fund supported a timely resale process for owners. This helps owners move quickly to make competitive offers for market units. In addition, the fund allows for necessary rehab to upgrade older units. Many units that were purchased through the CHBI program in the 1990s did not receive any rehab when they were purchased out of rent control, and the renovation needs are significant.

We have also seen some longer-than-anticipated holding times for units. Sometimes this is because of the rehab needs; other units are in condo associations where litigation or other issues create financing difficulties for new buyers. This has led to a slower cycle for revolving funds.

To date, the original $3.5MM has sunk by approximately $1.5MM. There are currently eleven units being held on the City's behalf in various stages of

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predevelopment, construction or sale. The fund is currently at capacity for cash flow.

At this time, we are requesting $1MM in additional funds for the ongoing management of the homeownership portfolio resales so that we can continue to facilitate the timely repurchase, rehab and resale of units, while providing timely reimbursement to designees for costs incurred for these units.

We have previously discussed with the Trust the potential for increasing "sinking" of the Resale Fund if interest rates rise significantly, requiring more subsidy to keep prices affordable. In addition, if a large number of units with deferred maintenance are repurchased, permanent investment in those units may be necessary. Additional funding requests may be required in future years to maintain a sufficient balance to ensure the long-term preservation of these units. Staff will continue to look for ways to decrease the costs for the resale process.

RECOMMENDATION:

That the Affordable Housing Trust approve the request to recapitalize the Homeownership Resale Fund with an additional $1,000,000 to address the ongoing need to purchase and maintain the condition and affordability of the existing affordable homeownership stock. Proceeds from the unit sales will return to the Fund.

The funds should be made contingent on the following:

1. CDD staff approval of renovation budgets;
2. CDD staff approval of renovation plans and specifications;
3. Selection of new homebuyers from the Homeownership Resale Pool.

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Staff have been in active discussions with the owners of Fresh Pond Apartments on what would be needed for them to agree to extend affordability beyond 2020. The owners have expressed a clear interest in preserving Fresh Pond and have been working cooperatively with staff on a plan.

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The second part of the transaction is to preserve the remaining 166 units which do not receive rental subsidies from HUD. This step will involve paying the owner the difference between the market value of the property if it were to be converted to market-rate after 2020, and the restricted value if it were to remain affordable at affordability levels we determine. In exchange for this "value differential" payment, the owner will need to agree to maintain affordability of these 166 units for another 50 years at affordability levels we determine now.

At this time, we estimate the "value differential" to be between $17 million to $18.5 million. This estimate is based on a set of assumptions, some of which we control, some of which must be negotiated with the owner, and some of which depend on the timing of various aspects of the transaction. For instance, while we can determine the affordability mix, we must reach agreement with the owner on assumptions such as rents, operating costs, and the interest rates used to calculate the value. Similarly, the timing of the MUTM transaction and the levels of rent increases approved by HUD will impact the figure.

We believe that we are close to reaching agreement with the owner on most assumptions, and that the final figure will need to be determined once we know the timing and details the preservation transaction. While we could wait until 2020, when most details will be known, we believe that there is substantial value in reaching agreement with the owner now, at least on methodology and the terms, with the potential option to adjust the final figure up or down before finalizing the transaction. As a result, we are proposing that this request for up to $18 million be conditioned on staff coming back to the Trust to confirm the final funding amount needed.

<u>New Affordability Requirements and Phase-in Reserve:</u>
We are proposing that the new affordability requirements be set to roughly mirror the income mix of existing tenants at Fresh Pond. Using this approach, 90% of units (454 units) would remain affordable to households earning up to 80% AMI, 6% (32 units) would be affordable to households earning 80-100% AMI, and 4% (18 units) would be affordable to households between 100-120% AMI. We may recommend amending this income mix if the income profile of existing tenants changes substantially before we complete the transaction.

In the meantime, we are evaluating the impact which the new income mix will have on existing tenants. While tenants in existing HUD Section 8 units and those with existing Section 8

mobile vouchers should not experience a rent increase, most other tenants will see rent increases as current rents for many residents have been capped at extremely low levels.

In order to help transition these tenants to the rent structure under the proposed preservation plan, we are also developing a plan to create and fund a rent phase-in reserve. The reserve would be held in escrow by a third party and the City/Trust would be able to recapture funds over time if they are not needed. We are still analyzing various phasing options but anticipate offering more generous phasing to lower-income tenants and more rapid phasing to higher-income tenants. In addition, we are exploring ways to incentivize eligible tenants to take, and hopefully project-base, any Enhanced Vouchers which are expected to become available from HUD through the preservation transaction. At this time, we estimate that up to $5 million may be needed for this reserve. We have discussed this approach with PRC and the owner and want to begin discussion of this approach with tenants and advocates.

RECOMMENDATION:

While we recognize that $18 million is a substantial funding request, especially when combined with funding for a phase-in reserve, the successful long-term preservation of Fresh Pond Apartments would be an enormous achievement, ensuring that literally hundreds of low- and moderate-income Cambridge families can remain in the community. While the owner has been open to and supportive of finding a preservation solution, they have the right to convert to market-rate housing if we cannot reach agreement on terms. The cost of losing this affordable resource to the market would be devastating and the cost to replace these 504 units would be prohibitive.

A combined total commitment of $23 million is in line with our previous estimates of funding needed to preserve affordability of the 504 affordable units at Fresh Pond Apartments and what we have used in our funding projections. A commitment of this amount, however, will require appropriation of additional City funds to supplement Trust funds as we have discussed. This preservation transaction would take place in FY2020. We will finalize the plan to fund this commitment in the coming months as we refine the total amount of funding needed, assess revenue available to the Trust in FY2020 and work with the City Manager and City finance team to appropriate additional funds needed to fully fund this commitment.

We discussed the details of the proposed transaction with the Project Review Committee in depth over the course of two meetings earlier this month. After discussion, they recommended that we bring this request to the Trust for review and approval. However, they recommend that approval be conditional and subject to further review as details become more clear.

Specifically, the PRC recommends that the Trust approve the request for up to $18,000,000 in Trust financing for the preservation of Fresh Pond Apartments, as described above and subject to the following conditions:

- The conditional funding commitment should be time-limited and should expire on December 31, 2019 unless staff has brought a final request back to the Trust for final approval;
- Final Trust approval shall be subject to the following:
    - Trust approval of final preservation plan;
    - Trust approval of process for formalizing the preservation plan, such as a Memorandum of Understanding, agreement, contract, or other legal structure;
    - Trust approval of final funding requests for both the "value differential" payment to the owner and the "rent phase-in" capitalization amount;
    - Trust approval of the process for monitoring and maintaining affordability over time, and monitoring use of rent phase-in reserve, including satisfactory provisions for City/Trust to recapture excess rent income and/or reserve funds that are not needed;
    - Appropriation of City funds necessary to fulfill this commitment.