CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To: Cambridge Affordable Housing Trust
From: Project Review Committee
Date: December 18, 2019
Re: 78-80 Porter Rd – Permanent Funding Request

The Cambridge Housing Authority (CHA) through its Cambridge Affordable Housing Corporation (CAHC) is requesting to convert $4,350,000 in existing short-term financing and $1,759,518 in accrued interest for its Porter Road development into a new permanent loan of $6,109,518.

Background: In 2009, the Trust approved a short-term acquisition loan of $2,300,000 and a short-term bridge loan of up to $2,200,000 (of which $2,050,000 was disbursed) to enable CAHC to purchase a 26-unit rental property in Porter Square. At the time of purchase, the plan was for CAHC to assemble the needed additional financing to allow them to renovate the property and to convert from what was mostly market-rate housing to affordable housing rented to income-eligible residents. It was anticipated that the Trust acquisition loan would be converted to permanent financing and that the Trust bridge loan would be repaid at construction closing. Anticipated sources included 9% housing tax credits, historic tax credits and DHCD soft funding.

While CAHC was able to secure Historic Tax Credits, they have been unable to secure 9% Low Income Housing Tax Credits (LIHTC) and the anticipated accompanying soft debt from DHCD to help undertake the rehabilitation of the property. CAHC's attempts to obtain these funding commitments in 2010, 2011(twice) and 2012 were unsuccessful. Because of the previous ownership structure, CAHC had to wait ten years in order to be eligible to access 4% LIHTC.

Porter Road 2009-2019

While the plan for the building to transition to affordable housing and undertake renovations did not come together as CAHC originally planned, CAHC did develop an interim strategy to transition the use of the property to affordable housing. CAHC transitioned the property to income-eligible occupancy as units turned over. Deficiencies at the property have been addressed as they surfaced, and CAHC has worked to address the challenges associated with maintaining a property with older systems. Most recently CAHC replaced the older, inefficient oil-fired boilers with a new, gas-fired, energy-efficient system.

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2019 Rehabilitation Plan

CAHC's revised plan has been to seek a permanent solution to the financing and renovation needs at Porter Road when the project became eligible to seek 4% tax credits at some point after 2019-2020. However, they accelerated this process after a fire and recently discovering undetected live knob and tube wiring which elevated concerns about

the safety of the building. Since that discovery, CAHC has begun the process of relocating residents and putting together a comprehensive renovation plan.

The acquisition and rehabilitation of this property was approved by the Trust ten years ago, but the rehab was, by necessity, delayed. The scope has grown to include additional capital needs and accessibility/building code compliance issues that have developed over the 10-year holding period Building systems, electrical and plumbing are inadequate, kitchens and bathrooms are in poor condition, the roof needs to be replaced, there are no accessible units or entrances, and exterior masonry is failing and allowing water penetration leading to potential mold issues.. Bathrooms and kitchens will be replaced, new electrical systems replacing old wiring and increasing building service capacity, a new roof, significant masonry envelope repairs, a fire suppression system, new plumbing, heating and sanitary lines, new storm and sewer connections, two units converted to accessible units, and a new accessible entrance will be added to one building. Several units will be reconfigured decreasing the number of studios and two bedrooms and increasing the number of three bedrooms. The costs are significantly higher than what was anticipated given the how significantly the rehab scope has been expanded. Costs are driven in part by the CHA's procurement constraints, the tight site, the extended relocation of tenants and the nature of the work.

MassDevelopment has committed $8.1 million in private activity bonds which allows the project to qualify for 4% low-income housing tax credits and move forward. The funds do need to close by mid-January as they are allocated for 2019.

In addition to the $4,350,000 in funding provided by the Trust in 2009, and MassDevelopment's $8.1 million in bond financing, the project will be funded with 4% tax credits, a first mortgage with Boston Private Bank and Savings and CHA loans and equity. The CHA is contributing up to $2,922,345 through MTW funds and direct funds. Additionally, accrued replacement reserves and cash flow account for another $1,192,593 of funds. There is no request for any additional funds from the City or Trust.

Current Request

CAHC is requesting to convert the Trust financing provided for the property in 2009 at 78-80 Porter Road into permanent loans. They are also asking that interest that has accrued at 8% on the acquisition loan since the 2009 acquisition in the amount to $1,974,094 be forgiven. The original acquisition loan note provides for forgiveness of interest at conversion to a permanent loan. The bridge loan did not have this provision. CAHC is requesting that the two existing loans along with interest that has accrued on the bridge loan be consolidated into a new repayable loan. Payments on the loan would be made from 70% of all ground lease payments due to the CAHC from the tax credit entity owning the building. CAHC would enter into a new Affordable Housing Covenant with a permanent affordability period.

CAHC must close by mid-January 2020 and plans to begin construction immediately. A construction contract has been signed, all other financing is committed, and 24 of 26 tenants have been relocated.

RECOMMENDATION

Given the need for affordable housing, the PRC supports CAHC's effort to complete the much-needed renovation and additional capital improvements at this property. CAHC's plan will ensure that this building will continue to be an affordable housing resource in Porter Square for years to come.

The PRC recommend that the CAHC's request to convert and consolidate existing financing of $4,350,000 and $1,759,518 of accrued interest into permanent financing of $6,109,518 from the Trust and that $1,974,094 in interest be forgiven be approved by the Trust.

This funding should be made conditional on the following:

- CDD staff approval of the final development and operating budgets;
- CDD staff approval of repayment provisions of Trust financing, whereby 70% of Ground Lease payments due be used to repay the loan or other such similar provisions acceptable to staff. Firm written commitments from all funding sources, sufficient to complete transaction;

Loan shall be subject to standard Trust terms and conditions including, but not limited to:

- All affordable units will be subject to the City's standard affordable housing restriction to be signed at loan closing, requiring affordability for a minimum of 99 years;
- Loan(s) will have an interest rate of 3% compounding, or such other rate approved by CDD Staff, and a term of no less than 50 years.
- Loan(s) will be subject to a penalty rate of 8%. The penalty rate is only applied upon violation of the affordability restriction.
- Except for loans with payback provisions, all other Trust loan(s) will be due and payable at the end of their term; however, repayment can be extended for an additional term upon approval by the Trust and extension of the affordability period.
- Loans shall be non-recourse.