CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To: **The Affordable Housing Trust**
From: **The Project Review Committee**
Date: **March 28, 2019**
Re: **Parkview Cooperative Funding Request**

The Parkview Cooperative is a twelve-unit limited-equity coop located at 24-26 Corporal McTernan Street in Cambridgeport. The coop was created in 1984 as part of the City program to assist tenants in purchasing their buildings during rent control. The coop was created without any public funding other than a second mortgage from CNAHS that was fully repaid. The affordability is secured through the coop's by-laws, but there is no other restriction on the property.

The building was built in 1908 and is considered historically significant. At the time of conversion to a limited-equity coop, very little rehab work was done. The coop has maintained the building and used reserves to fund large projects such as replacement of plumbing stacks, some kitchens and baths, and a new heating system.

Current Needs

The building needs significant rehab. The red slate roof is leaking; to repair the roof, contractors have stated that the wiring in the attic area needs to be upgraded from knob-and-tube to current code. The windows need to be replaced, along with the siding material. The electrical load to the building, along with the connections for water and sewer, will also need to be upgraded.

Given the unique architectural features and age of the building, the estimates for the rehab work are high. The coop initially approached the City for assistance with only a roof replacement. As we learned more about the building, it became apparent that there were other compelling rehab needs that would also be beyond the ability of the coop to finance, and it was more efficient to look at the total capital needs of the building.

The goal of the project is to bring the building up to code, address deferred maintenance, and ensure that the building is sustainable as affordable housing for the next several decades without the need for any additional subsidy.

The scope of work includes replacement of the roof, exterior stucco, and all windows with historically-appropriate materials; additional insulation

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throughout the building; new electrical service to the entire building and replacement of all knob-and-tube wiring; plumbing stacks; new kitchens and baths for most units; new sewer lines and required sitework; and installation of a sprinkler system.

The estimated hard costs are $1.9MM, including a contingency of $247,000. This estimate is based on preliminary numbers from a contractor for the roof, electrical and exterior, and consultation with other contractors on the additional scope of the wok. If they receive a commitment from the Trust, the next step is to put the entire project out to bid.

We have worked extensively with the coop and their development consultant to leverage other funding sources. The coop structure makes it difficult to use historic tax credits, as the coop would need to transfer ownership to another entity, which would fundamentally alter the resident-ownership model. They consulted with state funding sources, who felt that the project would not be a good fit for current subsidy program.

Several local banks have expressed interest in providing conventional financing for the project. This would be a first mortgage secured by the entire building. This is a structure that has been successfully used by other coops. The coop expects to secure a mortgage in the amount of $500,000.

In addition to a new first mortgage, the coop has also secured a grant from the Historical Commission for $100,000. Parkview will contribute $148,000 in reserve funds, while ensuring sufficient reserves to maintain the building going forward. In addition, they will secure a $60,000 grant from MassSave for energy efficiency upgrades. This leaves a gap of approximately $1.4MM.

Estimated sources and uses are:

Source	Amount	Use	Amount
First Mortgage	$ 500,000	Hard Costs	$1,650,000
Historic Grant	$ 100,000	Contingency	$ 247,000
Reserves	$ 148,000	Soft Costs	$ 275,000
MassSave	$ 60,000	Reserves	$ 30,000
CAHT Request	$1,394,000		
TOTAL	**$2,202,000**		**$2,202,000**

The TDC per unit is $183,000 based on estimated costs. If bids come in higher than anticipated, there will be a funding gap.

Affordability

All but one of the coop's current shareholders earn less than 100% AMI. Due to the low cost of creating the cooperative in 1984, Parkview's monthly carrying charges remain low. At the current rates, eight shareholders pay more than 30% of their income for housing. A 3% increase in the carrying charge will enable the coop to service debt, maintain sufficient reserves for ongoing maintenance and future rehab, and keep the monthly costs low.

The coop is very well-run, and decisions are made by a consensus of all twelve owners. They understand that a commitment of Trust funding will require entering into an affordable housing restriction that will protect the affordability for decades to come.

Limited-equity coops are a unique part of the affordable housing stock in Cambridge. Coop shareholders are not able to access individual mortgages or home equity lines. These units are not eligible for most affordable housing programs without altering the cooperative ownership structure.

This request represents the only permanent public subsidy put into units that have already been affordable for more than 35 years. Without this investment, the coop will not have the means to sustain the building. The proposed project will bring the building up to code; preserve the historic exterior; and ensure that the coop has the means to address capital needs for the next several decades. They do not have other options to complete this amount of work at one time. The investment of Trust funds will ensure that Parkview remains an affordable resource.

RECOMMENDATION:

This project will preserve twelve limited-equity coop units that provide deeply affordable housing in Cambridgeport. The proposed plan will address all current capital needs and ensure that the building will sustain itself for at least the next several decades. While this is a large per-unit request, this the only permanent public subsidy invested in maintaining the affordability of these units.

The Project Review Committee recommends that the Affordable Housing Trust approve Parkview Cooperative's request for a commitment for a rehabilitation loan of up to $1,394,000 in funding from City budget funds appropriated to the Trust to support this project. The funds should be made contingent on the following:

1. CDD staff final approval of budgets and proforma;
2. CDD staff approval of design, construction plans and specifications;
3. Firm written commitments from other funding sources as needed to complete the project;
4. An Affordable Housing Covenant (or Agreement) acceptable to CDD staff;
5. CDD staff approval of the Coop outreach plan for future vacancies, including outreach to Cambridge Housing Authority Section 8 voucher holders;
6. Loan advances shall be made only for approved project costs in accordance with the Loan Disbursement Agreement to be entered into at closing;
7. Standard Trust terms and conditions, including but not limited to:
   a) Loan(s) will have an interest rate of 3% compounding, or such other rate approved by CDD Staff, and a term of 50 years;
   b) Interest shall accrue, but principal and accrued interest shall not be due and payable until the end of the term. If, prior to maturity, loan term is extended, the accrued interest shall either be waived, at lender discretion, or deferred.
   c) Loan(s) will be subject to a penalty rate of 8%. The penalty rate is only applied upon violation of the affordability restriction.
   d) All loans will be non-recourse.