CITY OF CAMBRIDGE
Community Development Department

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To: **The Affordable Housing Trust**
From: **Christopher Cotter, Housing Director**
Anna Dolmatch, Housing Planner
Janet Haines, Associate Housing Planner
Date: **May 6, 2021**
Re: **Parkview Cooperative Funding Request**

We are attaching material related to the request for an increased funding commitment from Park View Cooperative. This includes new material submitted by the Coop, including terms the Cooperative suggests for a revised Trust revised funding commitment, as well as material previously shared with the Trust.

<u>Background and Current Request</u>

Park View Cooperative is a twelve-unit limited equity cooperative established in 1984 which is now in need of extensive rehab. The Trust committed up to $1,394,000 in March 2019 based on initial estimates prepared by the Coop. The need for an expanded rehab scope, combined with construction cost increases, has resulted in a funding gap of $2,605,215. The Coop is requesting the full gap amount from the Trust with an allowance for an additional $200,000 to fund the installation of a sprinkler system to the building if required.

In August 2020 the Trust considered an increase of $1,533,368 based on revised estimates. The scope of the rehab need and costs have been further updated by the Coop and their rehab team. The current request replaces the request presented to the Trust in 2020 and brings the total requested amount of $4,199,215. This includes the original commitment of $1,394,000.

March 2019 commitment	$1,394,000
August 2020 increase request	$1,533,368
May 2021 increase request	$1,071,847
May 2021 – sprinkler allowance	$ 200,000
Total Requested Commitment	$4,199,215

As requested by the Trust, in September 2020 CDD staff presented suggested loan terms and conditions that would ensure continued affordability and financial viability, and be comparable to the extent feasible to other Trust commitments. The Coop had significant concerns with these suggested conditions, and had wanted to suggest alternate terms for the Trust to consider. Since that time, CDD staff and a representative of the Trust have met several times earlier this year with the Coop and their team as they further refined their rehab plan and budget. We

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have also met with the Coop recently for their team to present the proposed terms it prepared for the Trust's consideration.

The Coop has prepared an updated rehab budget with construction costs of $4,084,800 and other soft costs $704,415, totaling $4,789,215. The increase is due to bidding out more detailed plans and an increased scope, and increased construction costs, which has resulted in a $1,656,878 increase in construction pricing. CDD staff have reviewed the revised scope and cost estimates and find the planned scope advisable given the rehab needs of the building and that the pricing is in line with industry standards. Staff identified several areas where additional costs might be incurred for additional scope. These items have been investigated included in the final scope of work as needed, with the exception of a sprinkler system. The final determination on the sprinkler requirement has not been made, but the costs are included in the request.

The 20-year operating proforma has changed after further discussion with the Coop. In September, Staff presented to the Trust a projection which assumed annual increases in carrying costs based on a projection submitted by the Coop. However, the Coop clarified that it intends to continue its longstanding practice of budget-based cost increases and anticipates that it will be able to keep costs stable given the flexibility they have in managing their building. Therefore, the Coop in its material notes that resident carrying costs will be increased only as costs increase (referenced as criteria-based budgeting in Coop submissions) and are not trending costs, carrying charges or reserves.

The September request materials included the concept of using Coop projected growth in cash flow to reduce the initial share price to increase access for lower-asset households. The Coop has suggested funding an annual contribution to a share buydown reserve for the next 12 years for a total of $25,000.

In addition to Trust funds, to the Coop anticipates additional funding from the following sources:

- Cambridge Savings Bank: $500,000 first mortgage
- Park View Coop Reserves: $148,000
- Cambridge Historical Commission: $100,000
- Mass Save Grant: $39,000

In addition to the attached request, Park View submitted documents to further the understanding of their position. A list of all documents submitted for the Trust are:

- Park View Memo – Request for Additional Funding Final 4-20-21
- Park View – Summary of Material Terms Final 4-20-21
- Considering Affordability Standards Final 4-20-21
- How to Understand Share Values Final 4-20-21

- Financial Practices Final 4-20-21

We are also sharing CDD memos prepared last year which describe more around the increased scope and process as well as terms CDD staff had suggested last year.

<u>Commitment Terms</u>

As noted above the Coop has proposed terms and requested that the Trust vote on its request as submitted.

We have reviewed the terms and find many of them consistent with those CDD had suggested last year. We note, however, that many financial terms suggested in the CDD memo were based on earlier operating projections submitted to CDD which showed operating revenue increasing over time. We now know that this is not the operating model the Coop plans to employ.

As noted in their material, the Coop plans to continue to use "criteria-based budgeting" approach which allows them to keep changes in carrying costs and operating revenues limited to actual increases in expenses. The criteria-based budgeting does not allow for future cash flows to be estimated as the expectation is that the budgets will be adjusted year to year as needed to balance growth in expenses with keeping costs affordable to residents. Therefore, many conditions suggested by CDD, including increasing contributions to reserves or use of remaining cash flow would not be possible under the Coop's plan. The Coop has outlined in its request its defined plan for funding operating, debt stabilization, capital, and share buydown reserves.

We believe the Coop's proposed terms are generally consistent with what we have suggested in regard to share appreciation and shareholder selection, although the Coop suggests maintaining the eligibility limit of 95% of AMI for new shareholders rather than lowering to 80% AMI as CDD had suggested. There are however differences in regard to Trust monitoring and oversight. The Coop suggests in its request a more contingent reporting mechanism where the Trust would not have a right to approve the annual budget (but rather an option to reasonably rebut). The Coop has also suggested terms which vary from the Trust's standard terms for interest and loan forgiveness at the end of the term.