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Community Development Department

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MEMORANDUM

To: **Cambridge Affordable Housing Trust**

From: **Christopher Cotter, Housing Director**
Cassie Arnaud, Senior Housing Planner
Gabby Geller, Housing Development Planner

Date: **August 25, 2021; REVISED September 23, 2021**

Re: **Jefferson Park Federal Funding Request**

After several years of planning, the Cambridge Housing Authority (CHA) is preparing to begin the comprehensive redevelopment of its Jefferson Park Federal property (JP Federal) and is requesting up to $43,611,615 ($157,443 per unit) in Trust funds to assist with its plan to construct 277 new affordable rental units to replace the 175 units currently at the site. The funds being requested from the Trust will help the CHA revitalize the JP Federal site and leverage close to $210 million in additional public and private funding.

Background

Over the last decade, the CHA has been seeking solutions to the critical capital needs of its public housing portfolio, which has been chronically underfunded in both operating and capital expense needs. In the case of JP Federal, a capital needs assessment revealed that a level of significant physical deterioration and rehab needs greater than anticipated. CHA's investigations uncovered failing masonry, substantial water damage and mold and mildew so severe that the CHA was forced to take 57 units offline in 2017 when they were determined to be uninhabitable after years of water infiltration and attempted remediations that were costly and ineffective for the long-term.

As a result of the deteriorating conditions and expense of maintaining substandard buildings, CHA decided to pursue modernization of JP Federal through its proposed complete demolition of the existing buildings and rebuilding. A complete reconstruction will allow for CHA to improve the configuration of the site and its connection to the surrounding neighborhood. CHA applied for and was granted a Section 18 Disposition from HUD in 2017, which will allow the project to support nearly $302,000 per-unit in permanent debt. These resources are critical to the CHA's plan.

The proposed plan would replace the existing 175-unit JP Federal development by demolishing 11 existing buildings and creating six new buildings of differing-sizes to create a total of 277 units, an addition of 102 new units. Approximately

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80% of the units will be two bedroom or larger with almost 40% of units having three bedrooms or more as shown in the chart below:

	Current			Proposed	
Unit Mix	# of Units	% of Total		# of Units	% of Total
1BR	35	20%		39	14%
2BR	33	19%		118	43%
3BR	85	49%		103	37%
4BR+	22	13%		17	6%
TOTAL	175			277	

The redesign of the JP Federal site will allow for the addition of 102 new deeply-affordable apartments, and will allow the property to better connect to the wider neighborhood by building off the street grid of North Cambridge through replacement of a dead-end and single-entry road with new roads in order to provide multiple entrances and exits from the property. CHA's plan will also provide individual entries to many apartments. The redesign will also allow for the creation of more usable outdoor space for residents including both active (playground, water features, grills) and passive (seating under trees) open areas. The new buildings will provide updated management, maintenance, and community space, and include space for the existing Head Start program that operates on-site.

Sources and Uses

As you may recall, we provided an update on JP Federal at the February 2021 meeting at which time the CHA anticipated they would need approximately $35,400,000 in Trust funding to support an estimated total development cost (TDC) of approximately $229 million. Since that time, the CHA has refined its design and development plans and received updated estimates which have been impacted by COVID-related construction cost increases. CHA has also made several changes to its site plan as it has responded to comments it has received. While CHA's request is greater than what we anticipated earlier this year, it remains below our earliest estimates due to the legislative changes to the tax credit program which will increase the equity yield on tax credits for developments like JP Federal.

The TDC for Jefferson Park Federal is now currently estimated at $251,769,435, an increase of more than $22 million from estimates from earlier this year. We have reviewed with CHA to understand the factors that have driven this increase. A major component of the high cost of CHA developments is due to the CHA's procurement requirements and public bid requirements. Another major component has been COVID-related increases in construction and materials.

The premium the CHA pays adds an estimated 25-30% to the cost of construction due to prevailing wage requirements as well as the public bid requirements. The premium from the CHA's procurement obligations requires more state and local resources as compared with

projects that are not subject to these requirements. As we often see with CHA-sponsored developments, CHA is committing its own resources to assist with funding this redevelopment.

The following table provides a summary of the CHA's development budget:

JP Federal Budget	
Uses	
Acquisition	**1,034,918**
Hard Costs	197,867,825
Contingency	9,354,069
Hard cost total	**207,221,894**
Soft Costs	34,372,516
Reserves	4,004,056
Paid Developer Fee	4,136,051
Deferred Developer Fee	1,000,000
Total Development Costs	**251,769,435**
Sources of Funds	
CAHT	43,611,615
1st Mortgage	83,839,000
4% LIHTC	86,332,165
CHA Program Loan	24,555,280
Accrued Interest CHA Program Loan	2,431,375
DHCD Soft Funds	10,000,000
Deferred Dev Fee	1,000,000
Total Sources	~~**251,669,435**~~**251,769,435**

We will continue to work with CHA staff to review and assess options for reducing the amount of Trust funding needed here and expect that as commitments from debt and equity investors are solidified, they might reduce the overall need for Trust subsidy somewhat.

Construction Costs - Current estimates for construction costs show an increase of more than $29 million from earlier estimates. The CHA attributes much of this increase to COVID-related cost impacts, as well as site design changes required to respond to comments on its design. While the buildings were originally designed to be stick-built, after running various cost analyses with increased material costs, CHA opted to switch to light gauge metal construction given dramatic increases in lumber costs, which increased 36% during the peak of COVID-19 and remain high in Massachusetts. There are benefits of steel frame construction including lowered insurance costs, however it is more expensive than wood-frame construction as had been initially planned. Additionally, CHA made some changes to its site design after reviewing it with the Fire Department earlier this year in order to widen streets on the site to better accommodate their vehicles. Site design changes have also been made in order to add to open areas and save additional trees where possible. CHA will be planting more than 185 new trees, more than replacing those that will be removed.

Soft Costs- The change in construction materials and site design required significant additional architecture and engineering work and increased costs by $500,000. Overall soft costs increased by more than $3,000,000 due to increased financing fees and construction

loan interest from an increased construction loan needed to fund the permanent loan amount during construction.

To balance out the cost increases, CHA made a reduction in its developer fee of almost $12 million. This lowers the TDC but also reduces the size of the CHA's "Program Loan" and the accrued interest which the loan generates, which was to be contributed back to the project as a source.

Project Sources- In addition to the requested Trust funding of $43,611,615, the project will be funded with a first mortgage loan, 4% low-income housing tax credit equity (LIHTC), subsidy funding from DHCD, and a Program Loan and deferred fee from the CHA. The CHA will seek a first mortgage of $84,000,000, which is nearly $14,000,000 higher than initially anticipated due to favorable increases in voucher rents and operating cost assumptions.

MassHousing has approved a tax-exempt bond allocation which will allow the project a 4% LIHTC allocation. CHA is making a conservative estimate of $.90 per credit for their equity yield. We think this yield might be higher as final pricing is determined which could help reduce the funding needed form the Trust. Additionally, CHA is requesting $10,000,000 in funding from DHCD. Finally, the CHA will contribute $24,555,280 via a CHA Program Loan, $2,431,375 in accrued interest from its Program Loan, and $1,000,000 of deferred developer fee.

Timeline and Next Steps

The CHA is working to meet required HUD deadlines and retain the vouchers that have been committed to this project. The CHA is hoping to have all financing assembled in time to begin the bidding process in early 2022 with a goal of closing on construction in summer 2022.

The redevelopment of Jefferson Park is being designed and permitted by CHA under the City's Affordable Housing Overlay (AHO). The CHA began the Affordable Housing Overlay (AHO) process this spring and held two neighborhood meetings in March and April. CDD staff are now working with CHA as they prepare for their advisory design review with the Planning Board which we expect to be scheduled in September or October.

CHA has also been holding regular meetings with their residents on the project design as well as relocation plans for residents.

Recommendation

The physical conditions at JP Federal have necessitated the need to demolish the existing structures and build new housing in order to ensure its long-term viability. CHA's rebuilding

of the JP Federal development provides an opportunity to create a more sustainable project that can better integrate buildings into the surrounding neighborhood. It will replace the 175 existing units, including the 57 units that have been vacant for several years, and also create more than one hundred new affordable units. Given the CHA's demonstrated success at JP State, staff are confident that the CHA will be able to achieve similar success with the reconstruction of JP Federal.

Staff recommend that the Trust approve the CHA's request for up to $43,611,615 in Trust funds for CHA's Jefferson Park Federal redevelopment. We have reviewed and discussed this request with Peter Daly, Susan Schlesinger, and Jim Stockard, who agreed with our recommendation to bring this request to the Trust and recommend approval.

We recommend any funding commitment be made contingent on the following:

1. CDD staff approval of the final development and operating budget;
2. CDD staff approval of construction plans and specifications;
3. Firm written commitments from all project funding sources;
4. CDD staff approval of the tenant selection and marketing plan which shall include preference for Cambridge residents to the greatest extent possible;
5. The Trust's review and consideration of Planning Board report(s) and any responses from the Cambridge Housing Authority pursuant to the advisory design review anticipated to occur under the Affordable Housing Overlay zoning provisions;
6. Standard Trust terms and conditions, including:
    - All units shall be subject to the City's standard affordable housing restriction to be signed at loan closing, subordinate only to first mortgage financing as may be required by that lender, and similar agreements required by the Department of Housing and Urban Development (HUD);
    - All units shall be restricted to households earning below 80% of Area Median Income as defined in the affordable housing restriction.
    - The loan shall have an interest rate of 8% simple or 2% compounding, or such other rate approved by Staff;
    - The loan shall be subject to a penalty rate of 12%, applicable upon a violation of the affordable housing restriction;
    - All principal and accrued interest shall be due and payable at the end of the term; however, the repayment date may be extended for an additional term upon approval by the Trust and extension of the affordability period;
    - The loan shall provide for repayment of principal and interest from net cash flow from the development on terms acceptable to staff;
    - The loan shall be non-recourse;
    - Any reductions in project costs or increases in non-Trust funding sources shall be used to reduce the amount of the Trust commitment.