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 Planner

MEMORANDUM

To: **Cambridge Affordable Trust**

From: **Christopher Cotter, Housing Director**
Cassie Arnaud, Senior Housing Planner
Janet Haines, Housing Development Planner

Date: **September 22, 2022**

Re: **35 Harvey Street – loan increase request**

---

in November 2021 the Trust approved a commitment of up to $2,917,664 to Homeowner's Rehab Inc. for the renovation and reconfiguration of 35 Harvey Street into 12 upgraded enhanced Single Room Occupancy (SRO) units. HRI has made progress moving the project forward over the ensuing months including completion of 100% construction drawings and securing funding from Massachusetts's Department of Housing and Community Development (DHCD) and the Cambridge Historical Commission (CHC). HRI put the plans out to bid in June, 2022. Unfortunately, initial bids came back substantially higher than budgeted.

HRI is now requesting an increase of up to an additional **$421,773** in Trust Financing to cover a portion of the increased costs. The balance of the gap would be filled with increased funding from DHCD, and deferred fee, as discussed in more detail below.

<u>Background</u>

As you may recall, HRI has assumed the operational control of this property from Cascap, Inc., and plans to renovate the property to create more viable permanent housing as enhanced SROs with private bathrooms and small private kitchen facilities for each unit. In addition to physical upgrades to the property, HRI has put together a robust supportive services plan. HRI is partnering with Heading Home to provide 26 hours of on-site case management services per week to Harvey Street residents. The new configuration and increased social services are expected to alleviate vacancy and operating issues that previously plagued the property.

The reconfiguration of the 35 Harvey Street project to upgraded enhanced SRO units will better meet the needs of the residents the housing is designed to serve. The property has had ongoing vacancy issues which have only grown worse in the wake of the pandemic. Providing residents their own private bathrooms and

344 Broadway
Cambridge, MA 02139
Voice: 617 349-4600
Fax: 617 349-4669
TTY: 617 349-4621
www.cambridgema.gov

kitchen areas will assist with ongoing financial stability and enable residents to have much more private space and allow for the likelihood that residents will be more at home and stay long term.

Budget Changes – Construction increases; Reserve increases; Debt Payoff

The final bids for construction came in $847,160 above the original estimates. With contingency and associated soft costs increases in architecture bonds, insurance, relocation and permits, the hard and soft cost increased by $1,015,425. Since receiving the high bids, HRI reviewed a range of options to address the cost increase including potential modifications to the construction scope that would not compromise their environmental or historic goals including reducing the size of the handicap accessibility ramp and eliminating some of the insulation and finishes in the basement. None of of these options were fully viable, and they were only able to make modest changes. They are now facing an increase in construction costs of $931,876.

HRI is also proposing to increase capitalized operating reserves from $30,000 to $121,020 (equal to six months operating costs), and to pay off the existing $140,000 Cambridge Savings Bank loan. HRI is proposing these changes in response to concerns raised by both City and DHCD staff regarding the challenges of operating this type of property. HRI has noted the historic difficulty turning units over quickly and the additional services with providers that the special needs population require making an operating budget volatile. They also note that in addition to the long-term benefit to property operations, paying off the debt would also reduce closing costs and simplify closing documents. HRI is proposing to defer a portion of their developer fee to offset the cost of paying off the debt and a portion of the increased reserve.

Project Budget and Financing

The current projected Total Development Cost is $5,164,108 or $430,342 per unit. This an overall increase of $1,246,444 from what was presented to the Trust in November 2021, as shown below in more detail:

Uses	Nov-21	Sep-22	Changes/Notes
Acquisition	n/a	$140,000	(retire existing debt)
Hard Costs	$2,427,840	$3,275,000	$847,160
Hard Cost Contingency	$242,784	$327,500	$84,716
Total Hard Costs	$2,670,624	$3,602,500	$931,876
Soft Costs	$718,410	$801,959	$83,549
Fee/Overhead	$498,630	$498,630	$0
Reserves	$30,000	$121,020	$91,020
TDC	$3,917,664	$5,164,108	$1,106,443
Sources			
Trust Financing	$2,917,664	$3,339,437	$421,773
DHCD	$1,000,000	$1,487,273	$487,273

City Historic		$160,000	$160,000
Private Debt	n/a [140k retained]	$0 [$140k paid off]	
Deferred Dev Fee	$0	$177,397	$177,397
Total Sources	$3,917,664	$5,164,108	$1,106,443

The total amount of Trust funding, including the requested increase, would be $3,339,437 or $278,286 per unit.

To date, HRI has secured commitments of $1,000,000 in DHCD HIF funding and $100,000 in City Historic funding, in addition to the $2,917,664 in Trust funding approved in 2021. HRI has also secured a commitment of MRVP vouchers for the project.

In addition to the new funding being requested from the Trust, HRI is also seeking $487,273 in increased funding from DHCD and an additional $60,000 in City Historic funds. HRI is deferring $177,000 in developer fee to be used to pay off first mortgage debt and to capitalize the operating reserve.

Project Review Discussion:

In advance of finalizing the funding request for review by the full Trust, we reviewed this request with a Project Review Committee that included Bill Tibbs and Jim Stockard. The purpose of the meeting was to discuss this funding request and the impact which the combination of escalating construction costs and any delays due to the long queue for state funding including this requested increase might have on overall project costs.

After discussion, Mr. Stockard and Mr. Tibbs were supportive of HRI's request for increased funding to help offset increased construction costs and to increase the operating reserves. They also felt that eliminating the small existing first mortgage to help stabilize operations was reasonable. They expressed concerns that continued escalating construction costs could further increase project costs, particularly if the State funding is delayed. Staff noted that the project includes a range of contingencies but agreed that they will monitor the project and report on any developing issues.

RECOMMENDATION:

The reconfiguration of the 35 Harvey street project to upgraded enhanced SRO units will better meet the needs of the residents the housing is designed to serve. The property has had ongoing vacancy issues which have only grown worse in the wake of the Covid pandemic. Residents having their own private bathrooms and kitchen areas will assist with more project financial stability and enable residents to have much more private space and allow for the likelihood that residents will be more at home and stay long term.

Staff recommends approval of HRI's request for up to an additional $426,622 in permanent funding from the Trust for their 35 Harvey Street redevelopment. This funding is in addition to the up to $2,917,664 in funding approved by the Trust in November 2021, of which up to $180,000 was approved to be made available early for predevelopment work.

The permanent loan of up to $3,339,437 in Trust funding should be made contingent on the following:

- The loan shall be structured as a first mortgage loan of up to $3,339,437;
- Increased DHCD funding of $487,272 or other amount as needed to fill gap; CDD staff approval of the final development and operating budget;
- CDD staff approval of construction plans and specifications;
- Firm written commitments from all project funding sources in amounts sufficient to complete project;
- Staff approval of the tenant selection and marketing plan, which shall include provisions to ensure the maximum allowable local preference and such other provisions as required by the CAHT; and,
- Staff approval of supportive services plan.

Standard Trust terms and conditions, including:

- All units will be subject to the City's standard affordable housing restriction to be signed at loan closing;
- All units will be restricted to households earning below 80% of Area Median Income as defined in the affordable housing restriction;
- Loan will have an interest rate of 3% compounding, or such other rate approved by Staff;
- The loan will be subject to a penalty rate of 8%, applicable upon a violation of the affordable housing restriction;
- All principle and accrued interest will 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;
- CDD staff approval of the repayment provision(s) of Trust financing, whereby 50% of net cash flow, and/or a portion of any ground lease payments, be used to repay the loan, or such other similar provision acceptable to Staff;
- Any reductions in project costs or increases in non-Trust funding sources shall be used to reduce the amount of the Trust commitment unless otherwise approved by Staff; and,

- Loan shall be non-recourse.