

CITY OF SOMERVILLE, MASSACHUSETTS
SOMERVILLE AFFORDABLE HOUSING TRUST FUND

KATJANA BALLANTYNE

MAYOR

Andrea Shapiro, Managing Trustee

Trustees

Brielle Calderan
Mary Cassesso
Michael Feloney
Kathryn Gallant
David Gibbs
Donna Haynes
Councilor Charlotte Kelly

Minutes

Thursday, July 13, 2023 Meeting – 5:15 pm

Trustees attending: Mary Cassesso, Brielle Calderan, Mike Feloney, Katie Gallant, David Gibbs, Donna Haynes, Charlotte Kelly, Andrea Shapiro

Staff attending: Paul Goldstein, Lisa Davidson, Alexis Turgeon, Morena Zelaya (OSPCD Housing Division), Tom Galligani (OSPCD)

Members of the public attending: Josh Cohen (Beacon Communities), Adam Dash (Adam Dash & Associates), Adam Benjamin (Mark Development), Robert Korff, (Mark Development), Herby Duverne (RISE Construction Management), Ben Baldwin (Somerville Community Land Trust)

The meeting started at 5:16 pm, with Andrea Shapiro serving in the role of chairperson.

1. June 8, 2023 Meeting minutes review and approval

Mary Cassesso made a **motion** to approve the June 8, 2023 meeting minutes. Donna Haynes seconded the motion, and the motion **passed** unanimously by roll call vote, with David Gibbs abstaining due to not being present at the June meeting.

2. New Business

Introduction of new OSPCD Executive Director Tom Galligani. Paul Goldstein introduced Tom Galligani, who had been serving as Acting Executive Director of the Mayor's Office of Strategic Planning and Community Development (OSPCD) since last summer. Paul noted that Tom had been hired as Executive Director in May, and has been attending Board and Commission meetings to introduce himself to members.

Tom thanked the Trustees for their time, and observed the importance of building relationships with stake holders and board members that work with OSPCD. Tom provided some brief information about his background in community development, including experience with affordable housing projects. Tom acknowledged the difficult decisions the Trust often has to make with regard to which projects and programs to support.

Andrea Shapiro asked if there were any updates to share on Trustee reappointments pending for a prolonged period. Tom noted that the top priority of the Mayor's office continues to be reappointments for Boards/Commissions which have quorum challenges. Tom acknowledged the frustration of Board members with expired terms, and noted he would follow up with the Mayor's office in an effort to prioritize Boards/Commissions which work directly with OSPCD.

The Trustees thanked Tom, and offered their congratulations on his new position.

299 Broadway funding request. Paul introduced members of the 299 Broadway project team: Josh Cohen of Beacon Communities, Robert Korff of Mark Development, and Herby Duverne of RISE Construction. The project team was in attendance to present a funding request for the proposed development at 299 Broadway, which team members had introduced at the Trust’s June 8, 2023 meeting.

Mr. Cohen began his presentation by noting that the total request of the Trust is for \$6 million in soft debt. Mr. Cohen gave a brief overview of the project, which is located at the site of the former Star Market on Broadway in Winter Hill. As proposed, the project will include a 100% affordable building (Building A) that the Trust funds would subsidize. Building A would consist of 115 units at or below 60% AMI, and be largely comprised of two or three-bedroom units. Josh noted that the family-size units was a factor contributing to high development costs. Building A would be owned and operated by Beacon Communities, while a second building on the site, Building B, would be owned and operated by Mark Development and contain mostly market-rate units. Josh noted that the project will be pursuing funding from the Executive Office of Housing and Livable Communities (HLC), and that the project team is preparing to submit a pre-application in the fall of 2023. Construction could begin in late 2024 if funding at the state level is secured through the upcoming application period.

Trustee questions and responses from the 299 Broadway project team included the following, with questions in italics followed by response information

1. *How is the acquisition cost being included with the development of the site, and will additional funding be needed for an extended carrying period?* Beacon Communities and Mark Development have formed a joint venture which will purchase the land and will provide the capital needed to close on the acquisition. The development team is confident that HLC will provide funding at the earliest possible opportunity, which would greatly reduce the need for an extended carrying period. HLC has given strong indications of its support for the project, especially given the site’s proximity to major public transit investments. Funds from the Trust and the HLC are the sole funding sources still being pursued at this time.
2. *Is this request for a loan or a grant?* The request is for “soft debt”, meaning that the funds will be structured as a loan, with no hard repayment obligations until the end of a 40-year term.
3. *Can you explain the relationship between the two buildings on the site?* The project team reported that it has invested of efforts to develop an approach that would meet the City’s affordable housing goals while retaining flexibility to address capital market requirements. A similar approach was taken for the Clarendon Hill redevelopment, which will include all affordable housing that is developed alongside market rate construction. For financing purposes, it is helpful to have one of the buildings be all affordable so that it can be considered a “friendly 40B project”, and facilitate access to both private equity and conventional affordable housing finance sources.
4. *Total Development Costs (TDC) per unit for Building A are projected to be \$663,345. In the past, HLC has “shied away” from projects above \$500,000 TDC per unit. Have there been other projects funded by HLC which exceed this threshold?* Beacon Communities staff noted that HLC has been adjusting its expectations in response to the current cost climate for affordable housing. The project team noted that other projects looking for HLC funding will likely have an even higher TDC per unit than 299 Broadway.

5. *Can you confirm that the soft debt will be used for Building A, and how many units will Building B have?* Josh Cohen noted that Building B will be financed separately, and contain 173 units, 17 of which will be affordable.

The project team thanked the Trustees, and left the meeting at 5:54 pm. Trustees proceeded to deliberate on the funding request. David Gibbs asked which funding source the \$6 million request would come from. Paul recommended that for the purposes of considering the request at this time, the Trust would need to show it as being funded from multiple sources, given current availability of those sources. A portion could be carried as a Community Preservation Act (CPA) funding commitment, and a portion carried as a non-CPA funding commitment. The final amount for each funding source would be determined at a later date based on availability of funds as closing(s) approach.

Paul shared that as of June 30, 2023, the Trust had approximately \$6.5 million in uncommitted funds available between its CPA and non-CPA funding sources. Paul also noted that based on revenue projections he compiled in advance of the July meeting, the Trust will receive about \$7.2 million between July, 2023 and August, 2024. Charlotte Kelly asked if those projections included the increase in linkage fees recently approved by the City Council. Paul noted that the projections were based on projects which had existing linkage agreements, and that the increase in linkage fees would only apply to projects permitted following the approval of the amendment of the linkage ordinance.

Mary asked if the Trust had a sense of other projects which may need additional funding. Mike Feloney noted that funding has already been committed to several larger projects such as 31 Tufts St., Waterworks Phase II, Clarendon Hill, and 24 Webster Ave. There are no other large projects prospective projects in the pipeline at this point.

Andrea made a **motion** to approve the \$6 million request for the development of 115 affordable units at 299 Broadway. The exact amount of funding from the Trust's non-CPA and CPA accounts for the commitment will be determined at a later date, based on available funds in the respective accounts. Terms for the loan or loans shall be as follows: 2% fixed interest for a 40-year term, with annual payments based on a portion of the project's documented cash flow. In year 39, the loan term may be extended in order to maintain the affordability of the project. Mary seconded the motion, and the motion **passed** unanimously by roll call vote.

Somerville Community Land Trust Early Action Acquisition Fund request for 12 Pleasant Ave. Paul introduced Ben Baldwin, Executive Director of the Somerville Community Land Trust (SCLT) who was in attendance to present a request for funds from the Early Action Acquisition Fund. Ben began by providing a brief update on 7 Summer St., SCLT's affordable homeownership project which was acquired with assistance from funds provided by the Trust in 2022. Ben noted that the project was completed on budget, all outstanding loans have been repaid, and each of the 5 units had been sold to income eligible first-time home buyers.

Ben gave a brief description of a property SCLT hopes to acquire, which is located at 12 Pleasant Avenue in the Prospect Hill neighborhood. The building consists of six two-bedroom units, each of which are currently occupied by tenants who are paying well below-market rents. The building was constructed in 1873 and is listed on the local historic registry. While the property appears to be in decent condition, SCLT would expect to renovate the building if it is able to acquire it.

The asking price for the property is \$2,431,000; SCLT is requesting \$2,501,000 from the Trust to cover acquisition and closing costs. By acquiring the property SCLT hopes to avoid another instance of a profit-motivated developer acquiring it converting it from serving as a form of "naturally

occurring affordable housing”. SCLT would instead plan to develop a relocation plan for the current tenants, as part of its overall acquisition and renovation plan for the building.

Ben described two possible approaches toward acquisition that SCLT is exploring at this time. The first would be a condo conversion process to create affordable homeownership units. The second would be to keep the units as affordable rental units, if the current tenants are income-eligible and wish to remain in the units. Under this scenario, SCLT would consider pursuing vouchers from the Municipal Voucher Program (MVP). An appraisal of the property has not yet been conducted, as the seller would not consent to an appraisal without a signed Letter of Intent from SCLT. The Letter of Intent was recently submitted to the seller, and an appraisal has been scheduled.

Trustee questions and responses from the SCLT included the following, with questions in italics followed by response information:

1. *Does the SCLT have a preliminary estimate for the cost of renovations?* The SCLT does not currently have an estimate. After consulting with some potential construction partners, the SCLT is confident that the building is in fairly good conditions and will not need a full “gut rehab”. Considering that assessment, a conservative estimate for the cost of renovations would be between \$400,000 and \$700,000.
2. *Will rents be increased during the carrying period?* The SCLT has approached budget preparation in hopes of avoiding need for an increase at least in the first year of carrying period. Other details about the project (such as renovation costs) yet to be determined will help inform how much the rents may need to be increased during the carrying period. The SCLT is hoping that MVP vouchers could help subsidize carrying costs while keeping the rents affordable. (Trustees responded to the last point, noting that MVP has very specific eligibility requirements, and the current tenants may not meet those requirements despite being income eligible.)
3. *Can SCLT provide a timeline for when an inspection of the property would be carried out, and confirm one would take place prior to any closing?* The Letter of Intent provided to the seller lists several due diligence items, including an inspection. An inspection prior to closing is especially important given the building’s age.
4. *Would a condo conversion, consistent with current City requirements, result in the displacement of current residents?* The SCLT will follow all the requirements set forth in the City’s Condo Conversion Ordinance if they elect to create affordable homeownership opportunities. The SCLT would prefer not to displace any current residents. However, in order to create permanent affordable housing using public funds, any current residents who are not income eligible for the unit would have to vacate at some point. The SCLT would likely not pursue a condo conversion if it turns out that a majority of the current tenants are not income-eligible for an affordable homeownership opportunity.
5. *Given that the final scope of the project is not yet known, what kind of updates will SCLT be providing to the Trust as the project progresses?* Ben Baldwin noted that SCLT intends to keep the Trust updated during the carrying period, including on the need for additional permanent financing to make the project viable. SCLT is exploring various options for permanent financing such as local banks and the Greater Boston Community Land Trust Network.

SCLT’s Executive Director Ben Baldwin thanked the Trustees for their time, and left the meeting at 6:34 pm. Trustees proceeded to deliberate on the SCLT’s funding request, with David recusing himself due to his status as an SCLT Board member.

Mike acknowledged that the nature of projects which request acquisition funding from the Trust will not be fully finalized at the time of the request. However, he did have concern that there was a lack of

information from SCLT regarding potential displacement of current residents, and more specifically, how to mitigate that if not avoid it entirely. Mike noted he would be comfortable supporting a motion, provided that it calls for a plan for the current tenants at 12 Pleasant Ave. Other Trustees expressed similar concerns. Paul noted that in his discussions with Ben prior to the SCLT submitting a funding application, the need for a plan for the current tenants was discussed. Paul suggested to Ben that he look into the guidelines Somerville Community Corporation (SCC) follows for current residents of properties acquired through its 100 Homes Initiative.

Brielle Calderan expressed concerns about the uncertainty of the costs for renovation, which could be significant given the historic nature of the building and if steps had to be taken to remediate lead paint. Current tenants may be displaced if the rents have to be raised to help cover the costs of those renovations during the carrying period.

Charlotte Kelly noted that from the City Council's perspective, this is the type of project which was envisioned when the Council provided funding for the Early Action Acquisition Fund. The hope was that the funds would be used to prevent market rate developers from acquiring properties that could be used to provide affordable units. Charlotte expressed optimism that this project would be a good opportunity to preserve naturally occurring affordable housing, and that the SCLT would act in good faith with regards to displacement issues.

Given the concerns raised about the possible displacement of current residents, Trustees agreed that any motion to approve the funding request contain certain conditions which addressed those concerns. Paul noted that these conditions, along with the Trust's standard conditions of funding, would be noted in any commitment letter for the project.

Donna made a **motion** to approve the funding request for \$2,501,000 from the Early Action Acquisition Fund to assist with the acquisition of 12 Pleasant Ave. by the Somerville Community Land Trust. The commitment is contingent on an appraisal of the property being conducted and presenting favorably, and contingent on the SCLT creating and sharing with the Trust a plan for the current tenants at the property that adequately addresses concerns about potential displacement. The terms of the loan will be as follows: a three-year term, with a 2.5% fixed interest rate. Other terms will include quarterly interest payments, and the loan will be paid back at the end of the term in conjunction with a final permanent financing closing and/or the sale of each of the units to eligible buyers. The terms of the loan may be extended and amended per Trustee approval, as further details about the project become final. Mike seconded the motion, and the motion **passed** unanimously by roll call vote, with David recusing himself.

Charlotte left the meeting at 6:57 pm.

Acceptance of transfer of \$3 million in City funds to the Trust for flex rental assistance and transfer of \$82,715 of Free Cash for general Trust purposes. Paul explained that this agenda item pertains to information included in two memos that were circulated to Trustees with other meeting materials prior to tonight's meeting. As noted in each of the memos, the Trust received a transfer of \$3 million to its non-CPA account, which will be used to fund flex rental assistance programs once American Rescue Plan Act (ARPA) funds for those programs are expended, and a transfer of \$82,715 to be used for general Trust purposes.

Mary made a **motion** to accept allocation of \$3 million in Free Cash for the purpose of funding flex rental assistance programs after ARPA funds for these programs have been expended. Mike seconded the motion and the motion **passed** unanimously, with both David and Brielle recusing themselves as their organizations use part of flex ARPA funds to pay staff salaries.

David introduced a **motion** to accept the allocation of \$82,715 in Free Cash to be used for general Trust purposes. Mary seconded the motion, and the motion **passed** unanimously by roll-call vote.

August meeting schedule. Paul noted that the August meeting of the Trust is scheduled for August 10. Given that there is no urgent business scheduled for that meeting, precedent for the Trust to forgo the August meeting, and that he will be on vacation that week, Paul suggested that the Trust votes on a motion to skip the August meeting and reconvene in September.

Donna made a **motion** to skip the August meeting. Mary seconded the motion, and the motion **passed** unanimously by roll call vote.

3. *Continued Business*

Governing documents-review and suggested revisions to Operating Procedures. Trustees requested that this agenda item be tabled to a later meeting due to time constraints.

Review and approval of updated funding applications (standard development application and Early Action Acquisition Fund application). Paul shared that Jenn Goldson (of JM Goldson, the firm whose services the Trust procured for its recent Strategic Planning process) provided revised funding applications for both the standard development application and the Early Action Acquisition Fund application to him last month in advance of the June Trust meeting. Paul noted that if Trustees have any additional comments, or suggested revisions, he will make those changes as the funding set aside for Jenn's services has been fully liquidated.

The standard development application is inclusive of tracked changes made by a developer colleague of the consultant whom she forwarded the application to for review and comment. There were three questions/suggestions included at the end of the application, where Paul provided an initial answer and/or response for the Trustees to consider. Paul explained that he thought most of the suggested changes are beneficial unless he noted otherwise.

Mary made a **motion** to approve the funding applications, inclusive of Paul's suggested revisions. David seconded the motion and the motion **passed** unanimously by roll call vote.

4. *Standing Business*

Trustees requested that standing business items, including review of the monthly Financial Reports, be tabled to a later meeting due to time constraints.

5. *Communications*

Paul shared that at its June 22 meeting, the City Council approved changes to the City's Linkage Ordinance based on recommendations from the linkage Nexus Study which was commissioned by the City and provided by an outside consulting firm in 2022. Key changes to the ordinance include raising the housing linkage rate from \$11.23 to \$22.46 per square foot, and to reduce the exempted amount of gross square feet from 30,000 to 15,000. Projects which fall between 15,000 and 30,000 square feet will pay a discounted fee (50% reduction). Another change adopted adjusts the payment schedule for housing linkage to one payment at building permit and one payment at final Certificate of Occupancy, a change from the current process of receiving payments in three annual installments beginning at Certificate of Occupancy issuance. Paul noted he would forward a copy of the Nexus Study and summary presentation on the changes to the linkage ordinance to Trustees upon request.

6. *Adjournment*

The meeting was adjourned at 7:13 pm.

Documents distributed:

- Draft June 8, 2023 Meeting Minutes
- Funding application and supplemental materials for the proposed development at 299 Broadway
- Funding application from the SCLT for the acquisition of 12 Pleasant Ave.
- Memo re: acceptance of transfer of Free Cash to the Trust to continue to fund flex rental assistance programs once ARPA funds for these programs are expended
- Memo re: acceptance of transfer of remaining Free Cash for general Trust purposes
- Summary matrix of Trust governing documents
- Draft revised Operating Procedures document (clean and redlined)
- Revised funding applications (standard development application and Early Action Acquisition Fund application)
- Financial Reports for June, 2023 (CPA and non-CPA)