

CITY OF SOMERVILLE, MASSACHUSETTS
SOMERVILLE AFFORDABLE HOUSING TRUST FUND
JOSEPH A. CURTATONE
MAYOR

Andrea Shapiro, Acting Managing Trustee

Trustees

Mary Cassesso
Michael Feloney
Kathryn Gallant
David Gibbs
Donna Haynes
Brielle Short
Councilor Kristen Strezo
Jessica Turner

Minutes

Thursday, August 12, 2021 Meeting – 5:15pm

Trustees attending: Mary Cassesso, Michael Feloney, Kathryn Gallant, David Gibbs, Andrea Shapiro, Brielle Short, Kristen Strezo

Trustees not attending: Donna Haynes, Jessica Turner

Staff attending: Paul Goldstein, Lisa Davidson

Members of the public attending: Sam LaTronica, Gonzalo Puigbo, Somerville Community Corporation

Eliza Datta, E3 Development; and one other member of the public not identified on the call

Meeting started at 5:17 pm, with Andrea Shapiro serving in the role of chair person

1. Review and Approval of July 2021 Meeting Minutes

Katie Gallant introduced a motion to approve the July meeting minutes, David Gibbs seconded the motion. The motion passed unanimously by roll call vote at 5:18 pm

Mike Feloney suggested that E-3 present first despite being second on the agenda after Somerville Community Corporation (SCC). Mike noted that SCC's third memo was 5 pages in length, and that prior discussions had been fairly long. By comparison, E3's presentation was short and preliminary in nature.

2. New Business

• **Information regarding anticipated supplemental funding request for 31 Tufts Street (E3 Development).**

Mike introduced Eliza Datta of E3 development to update Trustees on the development at 31 Tufts Street and brief the Trust on an expected request for additional funding. Mike noted that the last time a development project sought additional funding (SHA and Waterworks Phase 1 in 2016); a presentation was first made to the Trust on the status of the project, and was followed by a more in depth request for funding the ensuing month.

Eliza gave a brief overview of the status of 31 Tufts St., including a project timeline, design features, and explained the proposed affordable units. Kristen Strezo asked how many 3 bed room units were planned. Eliza responded that 1 3BR unit was planned for the development, and noted that this unit was added after the initial proposal following feedback from the Trust. Mike noted that the AMI limits for the affordable units were lower than initially proposed, which was another positive change reflecting Trust feedback.

Eliza next described the budgeting and funding challenges facing the project. She explained that while the project was able to procure more funding at the State level than expected, the project has found itself to be in a need for additional funding due to the effect the ongoing pandemic has had on construction costs, which have increased 20% since the project was approved. Those increased costs have led to a funding gap somewhere between 1 and 1.5 million dollars. Eliza noted that she has begun to engage other potential funding sources in the same manner she has with the Trust, and also plans to increase E-3's contribution to close the funding gap. Eliza closed by noting she would be glad to attend next month's Trust meeting, at which time she could share a more detailed proposal for supplemental funding which Trustees could review.

Eliza left the meeting at 5:35 pm

3. *Continued Business*

- **100 Homes review and related issues (continued, SCC)**

Paul Goldstein introduced Sam LaTronica, Real Estate Director, and Gonzalo Puigo, Chief Executive Officer, representing SCC, to present the third and final memo which outlined the various challenges facing the 100 Homes Program, and to give an update on the overall financial picture of SCC.

Sam thanked Trustees for their continued feedback and support, and proceeded to outline the main points of the third of three memos that focused on issues of property management for the 100 Homes portfolio.

Issue One: Staffing

Sam noted that staffing is a challenge in all aspects of managing the 100 Homes properties. SCC manages the 100 Homes real estate portfolio "in house". The rest of SCC's portfolio is managed by a third party, Wingate Properties. SCC presently does not have the financial capacity to hire a third party property manager; the standard fee is typically 5% which SCC cannot support with the current cash flow the 100 Homes portfolio is yielding.

Proposed solutions for this issue are to cobble together aspects of a third party management company without actually hiring one. SCC is currently some of its services, and looking to hire third party firm (or firms) specifically for maintenance and for handling income certifications. Interviews and requests for quotes are in process. Sam acknowledged that Kristen Strezo had approached SCC about a potential apprenticeship aspect to these third party arrangements, which have been included in request for proposals. Trustees' questions and responses included:

- Mike asked if the 5% fee varies at all in response to market conditions. Sam noted that 5% is what Wingate charges SCC currently; SCC is unsure if that is the industry standard, but interactions with other property management companies have produced similar quotes. Kristen inquired what qualifications SCC is seeking for a third party maintenance firm. Sam answered that SCC is looking for a firm to take on a scope which includes managing a group of contractors who would be permanently dedicated to the 100 Homes portfolio.

- David Gibbs inquired what the cost would be if SCC were to consolidate property management duties in a comprehensive manner. Sam replied that is not yet known, but SCC's hope was that a consolidated approach would be possible long term even if it was more expensive initially. Sam noted that they have received quotes from companies which would handle income certifications for SCC, which is estimated to cost roughly \$400 per certification.
- Mary Cassesso commented that it was encouraging to hear about SCC's progress with regard to outsourcing property management duties, and noted that at the outset the 100 Homes Program was a new and innovative concept, which included inherent unforeseen challenges. Mary also noted the drastic effect the pandemic has had generally on real estate and development, and noted the importance of the challenges/possibilities for 100 Homes to be reflected in the Trust's next strategic visioning. Kristen asked if the firms SCC had engaged with were national or local. Sam replied that of the three that SCC has contacted, two were local.

Issue 2: 100% AMI Units

Sam explained that SCC was continuing to encounter challenges filling the 100% AMI units in the 100 Homes portfolio. SCC had worked with a broker in an attempt to fill the units without great success. One long term solution would involve a third party property management company assisting in filling these units, especially if demand for market rate opportunities increase.

Trustees' questions and responses included:

- Brielle Short asked if the rent for the 100% AMI units is over the amount allowed for standard voucher holders. Sam answered that it is, by about \$100 or so, and noted that they are rented to voucher holders but the rent is not increased, which results in SCC taking a small financial loss per unit per month; but the alternative would be for the units to remain vacant. Brielle followed up her question asking what other units voucher holders currently occupy. Sam replied that he believes all AMI levels have some tenants with vouchers.
- David asked other than the monetary cost, what else would prevent the 100% AMI units from being reclassified at a lower AMI. Sam replied that affordable housing restrictions on file with the Registry of Deeds specify the amount and AMI level of affordable units at each property, and noted that the amount of debt SCC took on was contingent on renting the 100% units at market rate. Before buying down the affordability, SCC would have to find an alternate source of funding to reconcile the existing debt.
- Mike noted that initial discussions have been had to lower some of the 49 Homes units (from 80-50% AMI), and that the Trust's non CPA funding source was quite healthy and could be a potential source for SCC to use to buy down the affordability of some unit. Mike noted this item could be presented to at the September meeting for a vote by Trustees.

Sam noted that Issue 3 and Issue 4, Income Certifications and Property Maintenance, had already been addressed and discussed at tonight's meeting, and moved to Issue 5.

Issue 5: Real Estate Taxes

Another significant issue involves real estate taxes, which are based on the market value of the property. Sam explained that this is in spite of the affordable housing restrictions on the properties. Sam noted that recent Massachusetts case law suggests that the proper way to value a property with an affordable restriction is not through its sales price through what is known as the “Income Approach”.

SCC was able to meet with the City’s Board of Assessors in May. The Board of Assessors is currently reviewing the information SCC provided, and there has not been any follow up yet. If SCC was allowed to reassess the value of the 100 Homes portfolio and not pay taxes based on the sales prices, there could be a saving of up to \$100,000 per year. Trustee’s questions and responses included:

- Andrea asked if the Mayor’s office or Housing Division staff could help coordinate with other City departments to assist SCC with this issue. Mike noted that it has been communicated that OSPCD should not be engaging the Assessor’s office in regard to property valuations. Mary asked if it would be helpful for the Trust to send a note to the Mayor’s office indicating that this issue was raised at tonight’s meeting. Mike noted that this approach has been helpful in the past, even if such actions were unwelcome, and indicated he would follow up with OSPCD Executive Director George Proakis on the issue.

Andrea asked what the next steps would be for SCC to address the challenges facing 100 Homes. Sam noted that the recent success of Metro 9, which was acquired recently by SCC, could be a blueprint going forward for how SCC acquires properties. Metro 9 already has an in house property manager for the common areas of the development, and was also taxed at the level appropriate for an affordable property. Sam acknowledged that SCC had a large list of tasks to complete with regard to following through on the proposed solutions presented in the memos, and that over time these solutions will lead to sustained stability and success.

Mike noted that it is important to acknowledge the success of Metro 9 did not just happen on its own, SCC had to be proactive with assessors to make sure the property would be taxed appropriately. Mike suggested that it may be beneficial to summarize the contents of the three memos. Andrea noted Trustees’ interest in hearing about the overall financial picture of SCC. Mike responded that this is the reason Gonzalo was at the Trust’s meeting. Gonzalo proceeded to address Trustees on the overall picture of SCC.

Overall Financial and Organizational Health

Gonzalo began by noting that 100 Homes has been an important program for Somerville and SCC, and that he does not believe SCC would have been able to acquire 117 units in 4 years if not for the 100 Homes program. Gonzalo acknowledged that many of the items that were discussed in regard to 100 Homes over the last three months bear revisiting, and noted that the 100 Homes portfolio is not supporting itself, with rental income insufficient to cover staffing and other related costs. SCC has had to step up to solve its current issues, and has done so at great costs. Gonzalo noted that SCC’s bond portfolio had been refinanced, which will save money on 100 Homes. Gonzalo also referenced pending tax abatement requests and the ability to renegotiate 100% AMI units as tools will improve the organization’s overall position.

Despite the issues facing 100 Homes, SCC generated positive net revenue for the first time in 4 years, and the outlook is encouraging for that to be the case for the second year in a row. Gonzalo stated that for the portfolio to begin to expand again, two things have to happen; closing on 163 Glen Street and secure the developer fee for the Clarendon Hill redevelopment. Gonzalo acknowledged that the strain of the pandemic has made the situation more difficult for SCC, but

hopes that by the middle of next year lenders will view the organization as financeable. Gonzalo also emphasized the importance of eventually hiring a third party property manager with scattered site experience, which would drastically improve the long term outlook of the organization. Gonzalo concluded by noting that SCC still believes in the 100 Homes program, and highlighted how important the program was to preserving affordable housing in Somerville, and the importance of acquiring existing properties which would otherwise be in the hands of market rate developers. Trustees' questions and responses included:

- Trustees expressed appreciation for Gonzalo's summary, and hoped SCC would be returning to the Trust for a specific funding request in the future. Gonzalo acknowledged how much of a challenge it has been for Sam and other SCC staff to juggle multiple sets of responsibilities, but noted that the hope is for 100 Homes to still be viable long term, and potentially become a model for other communities.
- David brought up the importance of efficiency for an organization like SCC, and asked if there is any way to consolidate some of the solutions for the issues facing 100 Homes. Sam noted that many of the proposed solutions would require some sort of cash infusion at their onset. Gonzalo noted that SCC is making a significant investment with regards to piecing together all the elements a third party property management company would cover, which will help to stabilize the portfolio, and ultimately make it more attractive to third party property management companies who have in the past not been interested in taking on 100 Homes and SCC as a client.
- Mike noted that SCC is working its way towards a specific funding request, and also noted that SCC has had a significant infusion of supplemental funding (approximately \$700,000) from the Trust over a two year period. Mike also noted that a Boston based CDC has also been using a scattered site model similar to 100 Homes and encountered many of the same issues. SCC has had a dialogue with this CDC, and hopes to use that collaboration as a resource for evaluating possible solutions to the challenges facing 100 Homes.

Andrea thanked Sam and Gonzalo for presenting; Andrea noted that the Trust would like to continue to support SCC and the work it does for Somerville, and acknowledged the difficulty of the challenges facing the organization and 100 Homes.

Gonzalo and Sam left at 6:47 pm

4. *Additional New Business*

- **Financial report(s) review (CPA Account and Non CPA Account, April-June 2021)**

Paul presented updated financial reports for the Trust's CPA and non CPA accounts through June of 2021. Paul noted that the CPA account had a significant transfer of expenses in June, and the amount of funds not yet committed was now lower than previous reports. Paul also noted that the non CPA account had received a significant amount of linkage payments over the last 3 months, and as a result had much more available for new commitments than the CPA account.

Trustees inquired if the low balance of available funds in the CPA account would affect projects going forward. Andrea clarified that the low balance does not affect any of the prior commitments the Trust has made for those funds, and that the balance is low because it is taking into account the commitments already on the books.

Trustees pointed out that there seems to be more flexibility with the non CPA funds. Andrea pointed out that the Trust is still subject to State regulations for housing trusts, and that the funds in the non CPA account can only be used for development projects, and not housing

assistance programs. Andrea further noted that this is why the pending Home Rule Petition request for the Trust remains important.

Mary made a motion at 6:56 pm to accept the CPA financial reports, which was seconded by David, and passed unanimously by roll call vote.

Mary made a motion at 6:57 pm to accept the non CPA financial reports, which was seconded by David, and passed unanimously by roll call vote.

5. *Communications*

- **Memorandum providing updates on standing agenda items**

Paul noted the memo he circulated to Trustees provided updates on the status of contracts for FY21 CPA awards, the Home Rule Petition, and the Powers & Sullivan financial review of FY18 and FY19, and indicated that Mike would be providing updates on Strategic Visioning and the status of Trustee reappointments.

On Strategic Visioning, Mike noted that Housing staff had reached out to consultant Jenn Goldson, who confirmed that a budget of slightly less than \$10,000 likely would be sufficient, and that she had enjoyed her work with the Trust on the last Strategic Visioning undertaking and was looking forward to further collaboration.

Brielle left the meeting at 7:02 pm

On Trustee reappointments, Mike noted that he has been pursuing updates for months but has not had much luck garnering any significant response to his inquiries. Mike shared an observation that OSPCD Executive Director George Proakis volunteered after his most recent inquiry; that he has not seen board members bring up their status as agenda items at board meetings. Mike went on to note that both Mary and Donna Haynes were still in the queue for pending reappointments as of last year, and there is a chance their reappointments could be made by the Mayor before his departure from office. Mike concluded by noting that the Trust is not the only board facing these issues, and that per City ordinance, all Trustees can continue to serve at the pleasure of the Mayor unless otherwise reappointed despite their terms not being current. Andrea requested that Trustee reappointments continue to be carried as an agenda item.

Andrea asked if there is anything the Trust can do to move the HRP request forward. Paul and Mike indicated that they would reach out to their contacts in the Mayor's legislative office and at the State House to convey the willingness of Trustees to help move the process along. Mary suggested reaching out to the Somerville Delegation may be worthwhile.

6. *Announcements*

- No announcements were made.

7. *Adjournment*

- The meeting was adjourned at 7:13 pm.

Next Meeting Date-The next meeting date will be September 9, 2021 at 5:15pm. It will be held remotely using Zoom. Instructions to join the meeting will be provided on the meeting agenda posted at City Hall and on the City's website

Documents Distributed:

- Updated CPA and Non CPA Trust Financial Reports
- July Meeting Minutes Draft
- SAHT Updates Memo
- Memo from SCC outlining issues and possible solutions facing 100 Homes