



City of Newton, Massachusetts Community Preservation Committee



David B. Cohen
Mayor

MEMORANDUM

DATE: 7 December 2007
TO: The Honorable Board of Aldermen
FROM: Community Preservation Committee
RE: **recommendation for reallocation of project funds without new appropriation**

1. **PROJECT TITLE:** Accessory Apartment Incentive Program
2. **CPA CATEGORIES:** Community Housing
3. **PROJECT REQUEST & DESCRIPTION**

This program offers homeowners financial assistance to create or legalize affordable apartments within their existing residences. The Community Preservation Committee recommends transferring \$26,000 to program administration, from funds originally allocated for subsidies to homeowners, to support a one-year program extension with no additional appropriation:

Original Budget		
funded 6 March 2006, Board order #466-05		
Project administration & outreach, including:		\$47,500
contracted outreach to and support for homeowners by the nonprofit Community Living Network	\$38,100	
project review & oversight from Newton Housing Office	\$9,450	
Fund for loans or grants to homeowners		\$270,000
Legal services (City of Newton Law Dept.)		\$3,000
TOTAL		\$320,550

Amended Budget		
recommended 8 December 2007 – proposed changes highlighted		
Project administration & outreach, including:		\$73,500
contracted outreach to and support for homeowners by the nonprofit Community Living Network	\$64,100	
project review & oversight from Newton Housing Office	\$9,450	
Fund for loans or grants to homeowners		\$244,000
Legal services (City of Newton Law Dept.)		\$3,000
TOTAL		\$320,550

The table on the following page summarizes proposed changes in the terms that will be offered to homeowners during this one-year extension.

Accessory Apartment Incentive Program		
	Current	Proposed - changes highlighted
Forms of assistance		
Grant	Offered in return for a permanent deed restriction requiring apartment to be rented to tenants with no more than 80% of area median family income.	No longer offered.
30-year loan	If loan is held for full term of 30 years, only principal must be repaid. If loan is held for any shorter term (for ex., homeowner sells the house before full 30 years), principal and compound, market-rate interest must be repaid.	If loan is held for full term of 30 years, both principal and interest are forgiven. Otherwise, 3 percent interest, with 1/30 of principal forgiven for each year the loan is held.
Pre-development loan	Maximum \$15,000 interest-free, to be repaid to Community Preservation Fund when the house is sold, for pre-permit expenses (surveying, design); subject to income limits.	Maximum \$15,000 interest-free, to be repaid to Community Preservation Fund when the house is sold, for pre-permit expenses (surveying, design); subject to income limits.
Terms of assistance		
Minimum term of affordability	5 years	7 years
Maximum term of affordability	Permanent for grant, 30 years for loan	30 years
Maximum total assistance per apartment	\$90,000 for 3 apartments; based on documented expenses; max. includes pre-development loan (more than 3 apartments can be subsidized if any request less than max. subsidy)	\$90,000 for 2 apartments + \$64,000 for 3rd apartment; based on documented expenses; max. includes pre-development loans (more than 3 apartments can be subsidized if any request less than max. subsidy)
Maximum pre-development assistance per apartment	\$15,000	\$15,000
Predevelopment loan terms	Subject to income limits: 80% of area median income	Subject to income limits: 80% of area median income
Homeowner qualifications		
Income limits	125% of area median income for grants or loans (expired end of August 2007); 80% of area median income for no-interest predevelopment loans	150% of area median family income for forgivable loan; 80% of area median income for no-interest predevelopment loans
Residency	Must maintain primary residence within the assisted property	Must maintain primary residence within the assisted property
Tenant qualifications		
Income limits	80% of area median income, or 30% of the monthly adjusted income for a household earning 70% of the area median income, adjusted for household size and no. of bedrooms in apartment	80% of area median income, or 30% of the monthly adjusted income for a household earning 70% of the area median income, adjusted for household size and no. of bedrooms in apartment
Relationship to homeowner	Tenant may not be - a full-time college or university student, with certain exceptions (part of a married couple filing a joint tax return, participating in federal or certain other job training or family support programs, or a single parent with children who are not dependents of another individual) - an employee of the homeowner	Tenant may not be - an immediate family member of the homeowner - a full-time college or university student, with certain exceptions (part of a married couple filing a joint tax return, participating in federal or certain other job training or family support programs, or a single parent with children who are not dependents of another individual) - an employee of the homeowner
Home & apartment qualifications		
Permitting & zoning	Must meet requirements of Newton's RAAP (Review of Accessory Apartment Petitions) or Accessory Apartments Special Permit ordinances; broadly, apt. must be created within envelope (walls, roof) of existing building - no additions or detached units	Must meet requirements of Newton's RAAP (Review of Accessory Apartment Petitions) or Accessory Apartments Special Permit ordinances; broadly, apt. must be created within envelope (walls, roof) of existing building - no additions or detached units
Building code	Apartment must meet code, including requirements for separate entrances/exits	Apartment must meet code, including requirements for separate entrances/exits
Allowable uses of funds	Create a new accessory apartment or legalize an existing apartment; expenses for design, permitting, construction	Create a new accessory apartment or legalize an existing apartment; expenses for design, permitting, construction
Priority	Any home that can qualify, either under RAAP or with a special permit.	Homes qualifying under RAAP would get priority over those requiring special permits.

4. CPC VOTE & RECOMMENDATION

Kevin McCormick, subcontracted as program manager by the grant recipient Community Living Network (CLN), reported to the CPC that during its initial 18-month trial, he received over 350 inquiries from homeowners. However, no homeowners proceeded to participate in the program, and no affordable accessory apartments were created or legalized.

Based on his analysis of these homeowner inquiries, Mr. McCormick found these primary obstacles to participation:

- ◆ **grant option:** homeowners whose financial situation made them strongly prefer this option were unwilling to participate because of the required permanent deed restriction of affordability; they were concerned that the offered subsidy would not compensate for the resulting possible loss in their homes' resale value
- ◆ **loan option:** homeowners who could afford to repay a loan with market-rate interest generally preferred to seek a regular bank loan, which did not require even a temporary deed restriction of affordability

Through discussions in August-November 2007 with community advocates for affordable housing, the CPC, and Alderman Lisle Baker – who actively helped to shape the original program – Mr. McCormick and CLN proposed the changes listed in the table above, designed to

- ◆ reduce obstacles to participation identified by homeowners themselves
- ◆ while ensuring that the program addresses pressing housing needs, without subsidizing homeowners who could easily afford, without subsidy, to create income-producing apartments in their homes, or provide housing in their homes or elsewhere for low- and moderate-income family members

On 28 November 2007, the Community Preservation Committee voted to recommend an additional 1-year trial of this program, with the proposed changes in terms and the reallocation of funds outlined above, by a vote of

6 yeas
2 nays (Douglas Dickson, Walter Bernheimer)

Members opposed to extending the program considered that shortening the required terms of affordability, to increase the program's appeal to homeowners, significantly undermined the program's potential community benefits. They also doubted that the program as amended would be sufficiently different to produce results different from those of the initial trial. As a result, they preferred to let the program expire, and to re-appropriate its remaining funds for other community housing projects.

5. FINDINGS

The CPC's recommendation (dated 31 January 2006) for the original program still applies, if the amendments proposed above are approved:

- ◆ the program meets the Community Preservation Act's definition of community housing
- ◆ creating such housing is an allowable use of CP funds
- ◆ creating community housing contributes to the **preservation of Newton's unique character**, by adding additional housing units with little or no impact on historic streetscapes or the exteriors of existing homes; and by preserving economic diversity – by providing both rental housing for low- and moderate-income households, and rental income for low- and moderate-income homeowners
- ◆ if the program succeeds in creating additional affordable apartments for a subsidy of up to \$90,000 per apartment, plus administrative costs, it will be providing such housing at a **significantly lower unit cost than most other recent community housing projects in the City**
- ◆ the program continues to enjoy **support from community groups**, including the Newton Housing Partnership, U-CHAN (Uniting Citizens for Housing Affordability in Newton) and the League of Women Voters

6. CONDITIONS of CPC RECOMMENDATION

Many conditions in the CPC's 31 January 2006 recommendation for this program's initial appropriation have already been met:

1. The City's Housing Office has submitted to the CPC an initial project timeline and a status report on a quarterly basis that describes work that is complete, work remaining, expenditures and target completion date.
2. The project managers have reported to the CPC their overall experiences and lessons from the pilot program.
3. A formal grant agreement has been executed between the City and CLN related to the funding CLN would receive for their administration of the program.

Renewed and extended conditions:

4. The program extension shall commence no later than 1 April 2008, or such other date(s) as may be approved in writing by the Director of Planning and Development.
5. The formal grant agreement between the City and CLN should be formally extended to one year from the date of the Board's approval of the proposed reallocation of program funds.
6. Promptly after substantial completion of the project, the applicant shall submit to the Community Preservation Committee a final project development cost statement.
7. Any portion of the grant not used for the purposes stated herein shall be returned to the Newton Community Preservation Fund.

7. ATTACHMENTS

- ◆ Revised proposal, rec'd 22 October 2007
- ◆ Letters of support from the Newton Housing Partnership, U-CHAN, and League of Women Voters