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Community Preservation Committee Funding Recommendation for Allen House Phase 3 Historic Rehabilitation - Supplemental Funding

date: 22 December 2018

from: Community Preservation Committee

to: The Honorable City Council

PROJECT GOALS & ELIGIBILITY

The Newton Cultural Alliance is requesting this supplemental funding in response to higher-than-anticipated costs and changes affecting some other funding sources for the rehabilitation of the historic Nathaniel Allen House (35 Webster Street, West Newton) for use as a community arts, performance, and education center.

This project's CPA eligibility was established for two previous CPA appropriations, totaling \$2.3 million (see www.newtonma.gov/gov/planning/cpa/projects/allen.asp). The Allen House is listed on the National Register of Historic Places and is a local Newton historic landmark. Its historically significant exterior and interior features are also protected by an updated, [permanent historic preservation restriction](#), recorded in April 2018.

RECOMMENDED FUNDING

On 11 December 2018 by a vote of 6-0 (members Beryl Gilfix, Richard Kronish and Robert Maloney absent), the Community Preservation Committee recommended appropriating \$600,000 from the Community Preservation Fund's fy19 budget reserve and fund balance for historic resources to the Planning & Development Department, for a grant to the Newton Cultural Alliance for the Allen House project, subject to the conditions outlined on the next page and based on the detailed budget attached to the proposal, as summarized here:

Uses of Funds	
Acquisition, closing costs	\$325,000
Phase I total	\$810,000
Phase II total	\$965,000
Phase III total (90% construction, 10% soft costs)	\$3,900,000
Overall Expenses (all phases), including:	\$1,500,000
Contingency (\$300,000)	
Finance expenses, interest (\$350,000)	
Developer fee, management, staff (\$850,000)	
Total Uses of Funds	\$7,500,000

Sources of Funds	
CPA - grants of 2014, 2016	\$2,300,000
Village Bank Debt (\$750k + \$300k)	\$1,050,000
Massachusetts Cultural Council (\$270k + \$300k)	\$570,000
NCA (donations before 2017)	\$550,000
Capital Campaign (new funds incl. \$200k in pledges rec'd)	\$920,000
Massachusetts Historic Tax Credits (net)	\$990,000
Federal Historic Tax Credits (net)	\$520,000
CPA - 2018 supplemental request	\$600,000
Total Sources of Funds	\$7,500,000

website www.newtonma.gov/cpa

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SPECIAL ISSUES CONSIDERED BY THE CPC

The CPC has received only positive community comments about this project. All CPC concerns focused on project finances.

In the project's 10-year operating budget, the CPC considered some cost projections optimistic. In the event of any eventual annual operating surplus, the committee also urged the Newton Cultural Alliance to increase its projected annual contributions to a replacement reserve. However, the CPC also agreed that this budget's revenue projections seemed appropriately conservative for a building that will be used primarily by nonprofit arts and educational organizations, and that the proposed geothermal system, though expensive to install, would help to minimize operating costs.

The development phase of the Allen House project is facing the same higher-than-anticipated construction costs as other current projects in greater Boston. For various reasons the project's federal historic tax credits will also contribute less toward project costs than originally anticipated. To address these issues, the Newton Cultural Alliance (NCA) has worked with its architect and contractor to find savings while ensuring that the project still meets the federal historic rehabilitation standards required by its funding sources, including CPA. NCA has also negotiated additional bank financing within the constraints of its intentionally conservative operating revenue projections and has set an ambitious new target for its capital campaign.

Additional possible cost reduction options would create additional challenges: The developer fee is important for accessing federal tax credits, and any deferred portion of that fee would have to be paid from cash flow, which is a risk. Some construction could be deferred while additional funding is sought, including installation of the elevator and the geothermal system. However, the CPC also understood NCA's conviction that visible progress on construction – especially for the new black box theater – is critical to the success of the capital campaign.

To maximize the non-CPA funding leveraged without increasing these risks, the CPC recommends earmarking this supplemental CPA funding for the installation of the geothermal system, once most other construction has been completed using a combination of previously appropriated CPA funds and non-CPA funds.

Finally, the CPC understands that accessing the federal historic tax credits requires NCA to form a for-profit partnership to hold the property for a period of time through a ground lease from NCA as the property's long-term nonprofit owner; and that the new partnership will be required to honor both the historic preservation restriction and key conditions in the [existing grant agreement governing the project's previously committed CPA funding](#), particularly about the site's uses.

ADDITIONAL RECOMMENDATIONS *(funding conditions)*

1. The CPC assumes all recommended funds will be appropriated within 3 months, and the project will be completed within 24 months, after the date of this recommendation. If either of these deadlines cannot be met, the Newton Cultural Alliance should submit to the CPC a written request to extend that deadline.
2. This supplemental CPA funding should be released through a grant agreement that is consistent with the existing agreement governing the CPA funds committed through [City Council order #126-16](#), and that limits the use of these supplemental CPA funds to the acquisition and installation of the geothermal system, once most other construction for the project's Phase 3 has been completed.
3. Any CPA funds appropriated but not used for the purposes stated herein will be returned to the Newton Community Preservation Fund.

KEY OUTCOMES

The Community Preservation Committee will evaluate this project based on how well it meets goals 1 and 2 above; on the Newton Cultural Alliance's long-term physical stewardship of Allen House; and on the provision of the other community benefits envisioned in the Alliance's 2014-2018 funding proposals to the CPC.

ATTACHMENTS

(delivered to the clerks of the Zoning & Planning Committee and Finance Committee)

- Proposal submitted to the CPC, also available from www.newtonma.gov/gov/planning/cpa/projects/allen.asp#Phase-3