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MEMORANDUM

To: Planning and Development Board Members

From: Rachel Powers, Community Development and HOME Program Manager

Cc: Jennifer Van Campen, Executive Director, CAN-DO & Metro West CD
Shaina Korman-Houston, Deputy Director, CAN-DO & Metro West CD
Justin Sallaway, Executive Director, The Barry Price Center

Date: September 28, 2018

Re: Request for a Substantial Amendment to the FY19 Annual Action Plan and FY16-FY20 Consolidated Plan to Support Increased Funds for the 236 Auburn Street Affordable Housing Proposal

1. Executive Summary

Project Sponsor, Citizens for Affordable Housing in Newton Development Organization (CAN-DO, Inc.), affiliated with MetroWest Collaborative Development (MetroWest) for the redevelopment of 236 Auburn Street, is requesting a funding increase in the amount of \$437,310 through a combination of Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds. The project will create eight units of affordable rental housing, consisting of a 5-BR congregate home for severely disabled adults, affordable to households at 30% AMI; and one 2-BR and two 3-BR family units affordable to households earning at or below 60% of Area Median Income (AMI).



CAN-DO/MetroWest, in conjunction with TBA Architects, worked with the City's Procurement Office to bid development of 236 Auburn Street from June to July of 2018. The process culminated in two unviable bids that were both extremely overbudget and lacking in the requisite housing development expertise. Subsequently, an alternative procurement process was permitted, which produced three proposals; Contractor LD Russo Co. emerged with the lowest, most feasible bid and was ultimately selected as the project's general contractor.

The total development cost is now estimated to be \$3,992,905, a 12% increase from the original budget of \$3,555,595. Project Sponsor CAN-DO/MetroWest, is requesting a substantial amendment supporting the increase of CDBG and HOME funds, by \$152,939 and \$284,371 respectively; this culminates in a total CDBG allocation of \$1,172,939 and HOME allocation of \$732,271. The project also leverages \$977,700 in Community Preservation Act (CPA) funding, \$659,995 in State allocated Facilities Consolidation Funds (FCF) and \$450,000 in private resources. The project sponsor received their Comprehensive Permit in February 2018.

The project at 236 Auburn Street targets extremely low and low-income households, identified as priority populations in the FY16-FY20 Consolidated Plan, and will be eligible for listing on the Massachusetts Subsidized Housing Inventory (SHI).

2. Project Description

The project includes the partial demolition and restoration of a nineteenth century house, the construction of a new modular, two-family duplex building, and a five-bedroom congregate house on an 18,760 square foot lot in the Auburndale village of Newton, MA. The historic single family home will front the public way, Auburn Street. The duplex unit will be located behind the historic house, and the congregate unit will be located at the rear of the site. There will be 10 parking spaces, including a dedicated space for a handicapped accessible van.

The property includes an existing 1,512 sq. ft. nineteenth century historic single-family house built in 1861. The structure, located on a 18,760 sq. ft. lot in an MR1 zone, is 2.5 stories, colonial-style with clapboard shingles, brick foundation and an asphalt-shingled gable roof. The existing property has twelve rooms, five bedrooms, five bathrooms, a 184 square foot porch and 354 square foot deck area. At the time of acquisition there were three separate units inside the existing house structure. Work will include the relocation of the historic home onto a new poured in-place concrete foundation, replacing the existing rubble base which has been cosmetically patched but is not structurally sound. Several additions to the existing property were made in the 1930s, and 1950s, but are not in character with the existing historic home. The additions will be removed, the building exterior restored, and the interior reconstructed to provide for a three-bedroom home. A small addition is proposed that will contain an office to provide a meeting space for tenants and service providers.

The new duplex building will be of modular construction and will contain two family housing units. The duplex will provide a 1,020 square foot two bedroom, one bath, kitchen/dining and living room, and a 1,280 square foot three bedroom, one and a half baths, kitchen, dining room, and living room unit. The units will be two stories, with simple intersecting gable roof, wood siding and double hung window units.

A 2,493 square foot congregate house for individuals with severe disabilities will also be constructed. The congregate house will be fully accessible and include five bedrooms, two baths, a kitchen, dining, and living room with a live-in staff office/bedroom and bath. The house will be a single story building of modular construction. Gable roofs, wood siding, and double hung windows will match the character and geometries of the duplex and historic home.

The proposal includes the following unit mix and characteristics for the three affordable family housing units:

Units	Affordability Level	# of Bedrooms	# of Baths	Living type	Gross Living Area
1	Up to 60% AMI	3	1.5	Single-family detached, two-story	1,512 square feet (existing)
1	Up to 60% AMI	2	1	Single-family attached, two-story	1,020 square feet (proposed)
1	Up to 60% AMI	3	1.5	Single-family attached, two-story	1,280 square feet (proposed)

	Household Size	50% AMI	60% AMI
2 Bedroom	3 person	\$48,550	\$58,260
3 Bedroom	4 person	\$53,900	\$64,680

2018 HUD Income Limits

The Division staff recommends that the three affordable family units set both a target rent and a maximum rent. The target rent would be equal to the current published Low HOME rent which is set to be affordable to households whose incomes are less than 50% AMI and the maximum rent be set based on the High HOME rent affordable to households whose incomes are less than 60% AMI. It is anticipated that the project owner would continue to utilize this lower rent. The structure also assumes that tenants will pay for utilities. Rents are underwritten to be affordable to households not receiving rental assistance (e.g., a Section 8 housing voucher) because these subsidies are scarce and there is no guarantee or requirement that a tenant would have a rental assistance voucher. The following chart details this recommended target and maximum rent for the units:

	Max Rent* HIGH HOME Gross Rent <60% AMI	Target Rent* LOW HOME Gross Rent <50% AMI
2 br	\$ 1,614.00	\$ 1,213.00
3 br	\$ 1,857.00	\$ 1,401.00
3 br	\$ 1,857.00	\$ 1,401.00

* Gross Rent inclusive of utility allowance.

The congregate, group home will be owned and operated by the Barry L. Price Rehabilitation Center and the five units will be affordable for individuals with disabilities whose income is less than 30% AMI.

The rent and income thresholds as proposed are in line with the affordability requirements set forth by the 40B Comprehensive Permit guidelines, and all units will be eligible for listing on the Massachusetts Subsidized Housing Inventory (SHI).

3. Underwriting Recommendation

Daniel Gaulin from FinePoint Associates, our HOME underwriting consultant, performed the project's underwriting and financial analysis based on the full CPC proposal received April 28, 2017, consistent with guidelines set forth by the U.S. Department of Urban Development and the WestMetro HOME Consortium. Mr. Gaulin acknowledges the complicated nature of the proposed project as it involves three development entities: CAN-DO, MetroWest and the Price Center. The success of the project will depend on the ability of each entity to execute its part of the development.

The proposed project is not allowed under current zoning, but received its Comprehensive Permit during February 2018. Additionally, Newton conditioned the previous commitment of HOME funds upon receipt of commitment from all other funding sources. Further, Mr. Gaulin noted negligible market risk. Given that proposed rents represent a third of current market rents in Newton, there is a sufficient pool of target households and overall the project reflects community needs. Cash flows projected an initial 17.5% cushion, about \$5,331 annually and no debt service.

The underwriting will be updated to reflect the most current working proforma. Taking into account Mr. Gaulin's recommendations, the Housing and Community Development Division encourage the project sponsor to allow rents up to 60% AMI (the high HOME rent), while continuing to target 50% rents (the low HOME rent). This slight change would help to strengthen cash flows and the project's sustainability in the long term.

4. Development Entity and Capacity

In September 2017, CAN-DO affiliated with MetroWest Collaborative Development in the operation and management of CAN-DO's housing portfolio and development projects, particularly 236 Auburn Street. While the two organizations are no longer affiliated as of June 1, 2018, because Jennifer Van Campen continues to be the Acting Executive Director of CAN-DO/MetroWest, this will not impact completion of 236 Auburn Street. A Development Services Agreement was executed between CAN-DO and MetroWest on September 29, 2017 that engages MetroWest to oversee development of 236 Auburn Street through to completion.

Given this transition, the Division is working closely with CAN-DO/MetroWest to ensure continued management and development capacity of 236 Auburn Street. Their development team has completed projects of larger size and intricacy; however, the City must do its due diligence in reviewing the final plans, specifications and contractor qualifications.

5. CDBG and HOME Requirements

5.A. Eligible Costs

The proposed use of CPA, CDBG and HOME funds, as allowable by each programs rules and regulations, has assisted in refinancing/ buying down the previously held mortgage, and provided

reimbursement for allowable hard and soft project costs thus far. Remaining and requested funds would be allocated, as allowable, toward those costs associated with demolition, site improvements, rehabilitation of the historic structure and construction of the modular units.

5.B. Affordability Period

The City has already imposed a 20-year HOME affordability period and a general affordability restriction in perpetuity or for the maximum duration permitted by law, with approval from the Commonwealth of Massachusetts. The terms of the affordability will be enforced by a declaration of affordable housing covenants which will run with the land.

5.C. Labor Requirements/ Procurement

The wage requirements of the Davis-Bacon Act will not apply to this project because it consists of less than eight total units. Group Homes are considered a one-unit project under HOME guidelines. The Division has worked closely with CAN-DO/MetroWest on the competitive bid process in conjunction with the Purchasing Department in accordance with the City's Procurement Policy for Affordable Housing Projects and HUD regulations.

5.D. Environmental Review

The City was required to conduct an environmental review prior to the commitment of federal funds. As part of the assessment, staff reviewed evidence that the property is free of potentially hazardous materials and would not have any adverse effect on the surrounding environment. The lead inspection report found the presence of lead, so this will be abated as part of renovations on the existing property. Additionally, since the existing property is a historic structure, the City coordinated with the Massachusetts Historical Commission on the property's historic preservation. Also, given the property's proximity to the Massachusetts Turnpike, a noise analysis was performed, and attenuation measures incorporated into the development's scope of work. The U.S. Department of Housing and Urban Development's (HUD) Authority to Use Grant Funds was received on February 20, 2018.

6. Design and Construction

6.A. Site Plans & Zoning / Permitting

As noted previously, the proposed construction did not meet the requirements for a special permit for in a Multi-Residence zone. The project applied for and received a Comprehensive Permit under Massachusetts General Law Chapter 40B during February 2018. DHCD, managing the Facilities Consolidation Fund (FCF) through the Community Economic Development Assistance Corporation (CEDAC), is acting as the State subsidizing agency.

6.B. Proposed Project

The Division has worked closely with the Project Sponsor, Partners and Architects in refining the development proforma and project scope of work; costs are determined to be reasonable based on the extensive nature of the work proposed and the extreme market forces at play. The total project construction cost is now estimated at \$2,403,682; 23% higher from initial estimates of \$1,937,129. This includes relocation and extensive renovation of the existing historic structure containing a three-bedroom unit, construction of a duplex building containing a 2 and 3-bedroom unit behind the

historic structure, construction of a fully accessible congregate living five-bedroom dwelling and all site development work.

7. Financials

7.A. Subsidy Per Unit

The subsidy-per-unit has risen to \$499,113, up from \$444,449; and the per-unit public subsidy is \$438,514. The principal reason for this is escalating market conditions and inflation as Newton’s land cost continues to increase, and the construction labor market gets tighter within the Greater Boston region. The Warren Group reported that the median sales price for a single-family dwelling in June 2018 was approximately \$1,396,250, up 15% from the \$1,214,000 reported June 2017.¹ Data on the median price for two-family dwellings was not available. The cost is further compounded by the project’s scale, historic preservation and complexity, resulting in a higher cost per-unit. This situation is not likely to change in the near future.

For comparative purposes, the table below shows the total development costs, total *public* subsidy per-unit and *public* subsidy per-bedroom of similar projects since 2005.

Project Address/ Sponsor/Year	Project Type and Scope	Affordable Units	Total Development Cost	Total Public Subsidy/Unit²	Total Public Subsidy/Bed
236 Auburn Street CAN-DO (Proposed)	Rental – Acquisition, Rehab/Construction	8	\$3,992,905	\$438,514	\$307,147
10-12 Cambria Road CAN-DO 2015	Rental – Acquisition, Rehab/Construction	2	\$905,410	\$427,705	\$213,853
54 Taft Avenue CAN-DO 2014	Rental – Acquisition, Rehab/Construction	2	\$1,170,729	\$534,515	\$213,806
54 Eddy St. CAN-DO 2012	Rental – Acquisition and Rehab	2	\$1,115,250	\$472,625	\$189,050
61 Pearl Street CAN-DO 2010	Rental – Acquisition and Rehab	3	\$1,370,000	\$381,667	\$190,833
2148 Commonwealth Ave. CAN-DO 2009	Rental – Acquisition and Rehab	2	\$950,000	\$337,500	\$135,000
11-13 Cambria Road CAN-DO 2006	Rental – Acquisition and Rehab	2	\$1,437,511	\$315,512	\$126,205
20-22 Falmouth Street CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,933	\$325,601	\$130,240
163 Jackson Road CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,048	\$325,158	\$130,063

The Planning and Development Department does not have a per-unit subsidy limit. Instead, a project’s subsidy amount is evaluated on a case-by-case basis through a federally-required subsidy layering analysis. Our goal is to provide enough financing to serve the greatest number of eligible households, to make the deal feasible and affordable to the target population and not over-subsidize the project or unduly reward those implementing it. Costs of affordable housing are a state-wide topic of interest.

¹ As of June 2018, [The Warren Group, Golda Meir Residential Market Study](#)

² Includes all HOME, CDBG and/or CPA public subsidy grants and loans

7.B. Developer Fee

The developer fee and overhead will remain at the original projections of \$321,872, or 9.1%, of total development costs, excluding the replacement reserve fund. The proposed fee is within the standard recommended by the National Council of State Housing Agencies of 15%.

7.C. Cash Flow

Initially, cash flows projected a 17.5% cushion, receiving about \$5,331 annually without debt service. Cash flows will raise slightly due to increases in HUD's 2018 Income Limits. However, an updated review will be completed.

8. Architectural Accessibility

8.A. Design and Construction Applicability

The City's Accessibility in Affordable Housing Guidelines encourages applicants to enhance the accessibility of their projects to the extent that it is financially feasible. The congregate home will be fully accessible as required by the state Dept. of Developmental Services for the intended population.

9. Fair Housing and Equal Opportunity

CDBG or HOME does not require affirmative marketing for a project of this size. However, the Massachusetts State Department of Housing and Community Development will require the submittal of an affirmative marketing plan prepared in accordance with the Chapter 40B Guidelines for the three family units, and a description of the lottery process that will be used for the project. This project to the greatest extent possible, will provide employment and training opportunities to lower-income area residents and businesses during construction, as required by Section 3 of the Housing and Urban Development Act of 1968.

10. Community Need

As stated in the City's *FY16-20 Consolidated Plan* and the *FY19 Annual Action Plan*, it is a priority objective to provide deeper subsidies in a project where the developer provides at least one of the following: 1) units that are accessible to persons with disabilities, where not required by applicable law and there is a substantiated market demand; and 2) units for low-income households (at or below 50% of AMI) that do not have rental assistance.

This proposal creates new affordable rental housing opportunities for three households earning up to 60% of AMI, while targeting rents affordable to households earning 50% AMI; and creates 5 accessible units for severely disabled adults through the congregate home.

11. Recommendation

CAN-DO/Metro West, in conjunction with the Housing and Community Development Division of the City of Newton Planning Department, originally presented the project submitted herein at the Planning and Development Board meeting held on June 5, 2017 and July 10, 2017. The proposal is well within the statutory intent of the HOME and CDBG programs and is necessary to create the proposed levels of affordability and construction and sustainability objectives.

Based on the merits of the proposal, consistency with community need identified in the 2016-2020 Consolidated Plan, evidence of community support, and project's monetary needs, the Division recommends increasing the Project Sponsor's CDBG and HOME awards by \$152,939 and \$284,371 respectively; allocating \$1,172,939 in total to CDBG and \$732,271 in total to HOME, with the following pre-conditions:

- a) Project cost savings are returned proportionally to the respective grant program(s) upon completion.
- b) Notify City if/when Operating reserves are disbursed for this project.
- c) Project proponents CAN-DO/MetroWest provide the final scope of work, cost estimates, procurement summary and construction contract.
- d) FinePoint Associates performs an updated review and underwriting to reflect the project's most current working proforma and financials.
- e) The WestMetro HOME Consortium awards the requisite HM19 (EN) Consolidated Funds and HM19 CHDO Set-Aside made available in the FY19 Request for Proposals released on September 26, 2018 and due October 17, 2018.
- f) Project proponents CAN-DO/Metro West must report to the Planning and Development Board at various benchmarks throughout implementation of the project to monitor the financial viability of the project:
 1. Following receipt of construction bids to verify project costs
 2. Four months following the start of project construction to report on progress;
 3. At project lease-up to submit a project completion report;
 4. Every 6 months thereafter for the first two years;
 5. As needed.

USES	Prior Budget Estimates		9/24/2018			
	Total 5/2017 (CPA Approval)	Congregate	Historic	Family	Total 9/2018	
ACQUISITION						
Acquisition: Land	900,000	218,041	112,119	149,521	479,680	
Acquisition: Building			420,320		420,320	
Acquisition: Carrying Costs	45,000	20,455	10,518	14,027	45,000	
Acquisition Subtotal	945,000	238,495	542,957	163,548	945,000	
CONSTRUCTION						
Direct Construction: *	1,539,275	451,809	644,847	524,495	1,621,151	
modular units and lifts	243,601	308,625	-	239,666	548,291	
Construction Contingency (5-15%)	154,253	45,626	128,969	38,208	212,803	
Construction Subtotal	1,937,129	806,060	773,816	802,369	2,382,245	
SOFT COSTS						
Architecture & Engineering	176,182	55,658	58,484	55,403	169,545	
Survey & Permits	20,000	6,767	6,497	6,736	20,000	
Clerk of the Works	-	-	-	-	-	
Environmental Engineering	25,000	8,459	8,121	8,420	25,000	
Bond Premium		-	-	-	-	
Legal - Developer Only	25,000	8,459	8,121	8,420	25,000	
Title / Recording	10,000	3,384	3,248	3,368	10,000	
Accounting & Cost Certification		-	-	-	-	
Marketing & Rent-up	3,000		900	2,100	3,000	
Real Estate Taxes	9,812	3,320	3,187	3,305	9,812	
Insurance	10,000	3,384	3,248	3,368	10,000	
Relocation		-	-	-	-	
Appraisal	-	-	-	-	-	
Security	-	-	-	-	-	
Construction Loan Interest	-	-	-	-	-	
Inspecting Engineer	9,000	3,045	2,923	3,031	9,000	
Fees: Construction Loan		-	-	-	-	
Fees: Permanent Loan		-	-	-	-	
Development Consultant	10,000	3,384	3,248	3,368	10,000	
Other: Lender Legal	5,000	1,692	1,624	1,684	5,000	
Other: LIP app fee	3,000	1,015	974	1,010	3,000	
Soft Cost Contingency 10%	10% 30,600	9,958	9,560	9,913	29,431	
Soft Costs Subtotal	336,594	108,524	110,136	110,127	328,788	
Subtotal Acq. + Const. + Soft	3,218,723	1,153,080	1,426,909	1,076,044	3,656,033	
DEVELOPER FEE % OH, RESERVES						
Developer Overhead 5%	5% 160,936	54,455	52,276	54,205	160,936	
Developer Fee 5%	5% 160,936	54,455	52,276	54,205	160,936	
Capitalized Operating Reserves	15,000		4,500	10,500	15,000	
Subtotal Dev Fee & OH, Reserves	336,872	108,909	109,053	118,910	336,872	
TOTAL DEVELOPMENT COST	3,555,595	1,261,989	1,535,961	1,194,955	3,992,905	
per unit	444,449	252,398	1,535,961	597,477	499,113	
per bedroom across all	273,507	252,398	511,987	238,991	307,147	
units		5	1	2	8	
bedrooms		5	3	5	13	