



CITY OF NEWTON, MASSACHUSETTS

Department of Planning and Development

Michael J. Kruse, Director



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program

David B. Cohen

Mayor

Date: December 10, 2004

To: Community Preservation Committee

From: Michael Kruse, Planning Director
Trisha Kenyon Guditz, Housing Development Coordinator

RE: Falmouth/Jackson Apartments

Cc: Jennifer Goldson, CPA Program Manager

Applicant: Citizens for Affordable Housing in Newton Development Organization (CAN-DO)

Contact Person: Josephine McNeil

Project Address: 20-22 Falmouth Road; 163 Jackson Road

Total Development Cost: \$1,855,755

CPA Funding Request: \$550,000

Project summary:

CAN-DO is requesting \$550,000 in Community Preservation Funds to assist in the acquisition and rehabilitation of two 2-family dwellings in order to provide four rental housing units for households at or below 50% of area median income who have Section 8 vouchers. CPA funds would be used to reduce the balance on the first mortgage by \$455,000 and for construction-related hard costs totaling \$95,000. CAN-DO has hired an architect to develop a scope of work that will be reviewed and approved by the City's Housing Office rehabilitation staff prior to any commitment of CPA funding. CAN-DO acquired 20-22 Falmouth Road (two two-bedroom units) and 163 Jackson Road (two three-bedroom units) in October 2004. The City provided \$400,000 in Community Development Block Grant (CDBG) funds towards the acquisition and the Massachusetts Housing Investment Corporation (MHIC) provided \$920,000 (*out of a total loan of \$1,050,000*) for the acquisition. Currently, all the units are vacant except for 20 Falmouth Road whose tenants will be moving by January 9, 2005. The City Housing Office is responsible for complying with federal relocation requirements to ensure the tenants receive all the information and services required under the law. All costs related to relocation will be paid with CDBG funds. *The current term of affordability is 99 years.* The City has requested approval from the Massachusetts Department of Housing and Community Development (DHCD) to extend the term to perpetuity.

Development pro forma and operating budget issues:

Funding sources: Proposed development sources include FHLB (Federal Home Loan Bank) for \$100,000 and "Bank" for \$600,000. CAN-DO is proposing to submit an application to the FHLB for a \$100,000 grant (through Affordable Housing Program), and a \$600,000 subsidized advance at 2.5% (estimate) interest. CAN-DO has met with prospective lenders but has not determined which FHLB member bank the request will go through. The application is due in May 2005 and there is generally a 30-day review and approval process. The FHLB interest rate cannot be determined at this date. In the pro forma, CAN-DO estimated that the FHLB interest rate will be 2.5%. The lenders that have offered to submit an application to FHLB, on behalf of CAN-DO, add an additional 2.5% to the FHLB interest rate. The term of the subsidized advance is 10 years. *As proposed, project feasibility is dependent on the Affordable Housing Program grant for \$100,000 and the subsidized advance in the amount of \$600,000 at the rate assumed in the pro forma.*

Another subsidy source is \$160,000 from the City's Newton Housing Rehabilitation Fund (NHRF). *These funds are available but have not been reserved or committed to the project.* CAN-DO is basing their debt service on a 0% interest loan. Although the City is proposing to amend the NHRF guidelines and making its terms more attractive to nonprofit users, the current interest rate on NHRF loans is 3%. Assuming CAN-DO received a 30-year loan at 3%, the debt service would be \$8,100 annually. *CAN-DO's operating budget is assuming an annual debt service of \$5,400 for the NHRF loan.*

Availability of Section 8 vouchers: The operating budget assumes that all four units will be rented by households with Section 8 vouchers. This assumption is based on the following: CAN-DO has had discussions with the Boston Housing Authority and Metropolitan Boston Housing Partnership (MBHP) relative to the availability of the Falmouth/Jackson Road units for prospective Section 8 voucher holders. According to CAN-DO, 120 vouchers will be available through the Boston Housing Authority by the end of the year. Staff at both the Boston Housing Authority and MBHP have expressed a willingness to work with CAN-DO by offering the Falmouth/Jackson Road units to their clients.

Overall project feasibility is dependent on the rents that CAN-DO receives through the Section 8 or a successor program, as is the case at 18-20 Cambria Road, which is funded with Community Preservation Funds, and for numerous other affordable housing efforts both locally and nationally. *As in all Section 8 supported developments, there is a reliance on a federal subsidy that contains a level of risk. Despite this inherent risk, however, most public funders—such as the City for example—and groups such as the Newton Housing Partnership believe that this is an appropriate risk to take in order to provide affordable housing opportunities.*

Rents: CAN-DO's rents are based on Section 8 exception rents for the City which are \$1,612 for a two-bedroom unit and \$2,016 for a three-bedroom unit. A point of clarification: The cost of electricity, which the tenants will pay, has been backed out of the rent. The cost of electricity, based on the Section 8 utility allowance standards, is \$46 for two-bedroom units and \$49 for three-bedroom units.

Vacancy rate: CAN-DO is proposing a 1% vacancy rate. The industry standard is between 5% and 7 % particularly for small developments where the loss of income from one unit, even for a short period of time, may have significant financial repercussions. CAN-DO has a track record of developing small scale developments like the Falmouth/Jackson Road project and always uses a 1% vacancy rate in their operating budget. A higher percentage may be warranted particularly since the rental income is dependent on finding and retaining Section 8 voucher holders.

Replacement reserve and operating reserve: CAN-DO's operating and replacement reserve amount per unit is high (\$500 per year). Typically, this amount is between \$325 and \$350 per unit. CAN-DO acknowledges that the per unit cost is very conservative and is willing to adjust this figure if required.

Cost of utilities, taxes and insurance: CAN-DO has based these costs on their experience on similar projects as well as the following assumptions: CAN-DO is exploring energy saving measures that will reduce utility costs and also plans to seek tax relief from the City due to the affordability restrictions on the properties.

Consultant services: CAN-DO has included a line item for \$10,000 in the development budget for a consultant. The primary lender, MHIC required this as a condition of their loan. MHIC will allow these funds to be allocated to other project-related costs if consultant services are unnecessary.

Non-financial issues:

Scope of work: Construction by Design (contractor) developed a proposed scope of work (*August 2004*) and a budget estimate that is included in the application. A final scope of work, including the CPA-funded work (*approximately \$95,000*), and rehabilitation budget needs to be reviewed and approved by the City Housing Office rehabilitation staff. CAN-DO has secured the services of an architect to develop a scope of work for the rehabilitation. CAN-DO is proposing to submit a draft scope of work to the City Housing Office in January. The cost of rehabilitation will remain an estimate until the project goes out to bid and a contractor is secured.

Project schedule: *No zoning relief is necessary.* The applicant states that rehabilitation/ construction will occur from November 2004 to April 2005. *CAN-DO needs to submit a project schedule with revised project milestones and date when full occupancy can be expected.*

Capital needs assessment: A capital needs assessment, required of all community housing applicants, was not submitted with the application. However, the size of the current project may not warrant a full capital needs assessment. Housing Office staff have reviewed the proposed scope of work and are satisfied with the information provided to date.

Appraisal: As required of all community housing applicants, an appraisal--satisfactory to Housing Office staff--was provided for each of the two properties.