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Candace Havens
Director

MEMORANDUM

To: Planning and Development Board
Community Preservation Committee

From: Candace Havens, Director
Robert Muollo, Jr. Housing Planner

Cc: Alice Ingerson, Community Preservation Program Manager
Shelby Robinson, Manager, Myrtle Village, LLC.

Date: October 24, 2013

Meeting Date: November 4, 2013

Re: Request for a Substantial Amendment to the FY11, FY12 and FY13 Annual Action Plan and FY11-FY15 Consolidated Plan to reallocate CDBG funds (\$604,679) and HOME funds (\$339,000) to the Myrtle Village project and for \$910,179 in Community Preservation Act Funds to support the Myrtle Village project.

OVERVIEW

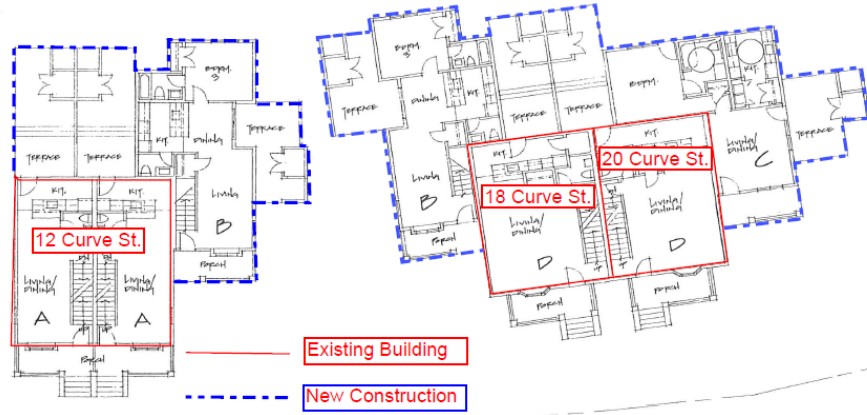
Myrtle Village, LLC (Sponsor) is requesting \$604,679 in federal Community Development Block Grant (CDBG) funds, \$339,000 in HOME funds and \$910,179 in Community Preservation Act (CPA) Funds to create seven units of affordable, deed-restricted rental housing at two existing properties at 12 Curve Street and 18-20 Curve Street. The total development cost is \$3,077,604. The total public subsidy requested is \$1,853,858 or \$264,837/unit. The Sponsor will also seek a Comprehensive Permit under Massachusetts General Law Chapter 40B from the Newton Zoning Board of Appeals. The Sponsor is seeking recommendations from the Planning and Development Board for use of CDBG and HOME funding and from the Community Preservation Committee for use of CPA funds for this project. These recommendations will be forwarded to the Mayor and Board of Aldermen respectively for final funding decisions.

This proposal was originally submitted in February 2012. However, a conflict of interest was identified pursuant to CDBG regulation 24 CFR 570.611. The sponsor has resolved the conflict by restructuring its governing board and waiting the required one year before reapplying for funds.

PROJECT DESCRIPTION

The project at 12 Curve Street and 18-20 Curve Street is located in West Newton. Myrtle Baptist Church currently holds title to both properties.

The site is located within the Myrtle Baptist Church Neighborhood Historic District, which was added to the National Register of Historic Places in 2008. The Newton Historical Commission and the Massachusetts Historical Commission have determined that the proposal will not adversely affect the Historic District.



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Currently, the two properties include a total of three occupied units. The Sponsor wishes to divide the structure at 12 Curve Street, which is an existing single-family house into two units, rehabilitating the property and constructing an attached third unit. The two-family building at 18-20 Curve Street will be rehabilitated and one one-story unit and one two-story unit will be constructed on either side of the existing duplex. The completed project will provide a total of seven units of affordable rental housing, ranging in affordability for households earning 50% of Area Median Income (AMI) to 85% AMI. The proposal will consist of the following unit mix and characteristics:

Unit	Affordability Level	# of Bedrooms	# of Baths	Square footage	Living type
1	50% of AMI	1	1	700	1-story, Group 2A Accessible
2	50% of AMI	3	2.5	1,200	Duplex
3	70% of AMI	2	1.5	990	Duplex
4	70% of AMI	2	1.5	1,275	Duplex
5	85% of AMI	2	1.5	990	Duplex
6	85% of AMI	2	1.5	1,275	Duplex
7	85% of AMI	3	2.5	1,200	Duplex

ANALYSIS

Development Team and Organizational Capacity

Although Myrtle Village, LLC. is a new entity formed by Myrtle Baptist Church, the church has been in operation since the late 19th century. Newton Community Development Foundation (NCDF) is under contract as the development consultant. It is important that the property be managed by an experienced provider, as the Sponsor does not have experience managing properties subject to state and federal affordability requirements. The construction project manager and architect under contract is Mr. Angelo Kyriakides. Both NCDF and Mr. Kyriakides have documented experience in the

development, construction management and property management of HUD-and state-funded affordable housing projects of various size and complexity.

Affordability

This proposal exceeds the minimum affordability requirements for CDBG, HOME and Chapter 40B/Comprehensive Permit projects. Tenants will pay no more than 30 percent of their monthly adjusted income in rent. Tenants will pay for utilities so a utility allowance is deducted from the gross rent. The proposed rents in the *Operating Budget*, updated August 29, 2013 are within these limits. The City of Newton, the Sponsor and DHCD will enter into a regulatory agreement, which establishes affordability in perpetuity. The regulatory agreement will stipulate the terms of affordability and the Sponsor's profit limitations.

Relocation

As stated earlier, all three units are currently occupied. In an effort to avoid temporary displacement of the current tenants during construction, the project will be phased by first completing work on 12 Curve Street (the single-family house). 12 Curve Street would then be re-occupied and work would begin on 18-20 Curve Street.

It is the policy of the Planning and Development Department to avoid permanent displacement of households. To ensure that households currently residing in the property are not permanently displaced, staff supports not conducting a lottery for the three units if the residents are determined to be income eligible and will be appropriately housed. This comes with the understanding that the three units may not be included on Newton's Subsidized Housing Inventory upon project completion, but rather upon unit turnover. An alternative to not holding a lottery for these three units is to add a 'non-displacement' preference in the tenant selection process. In 2012, the Fair Housing Committee drafted an amendment to the City's local preference requirements within the zoning ordinance that would give eligible residents facing displacement preference. This item was docketed with the Board of Aldermen and is currently under discussion at the Zoning and Planning Committee. Staff is confirming whether DHCD will allow a 'non-displacement' preference, and whether these units will count on the SHI upon project completion or upon unit turnover.

Environmental Review

According to a Phase I environmental study submitted by the Sponsor, there is no evidence of recognized environmental conditions in connection with the site. The study indicated that each unit is suspected to contain areas of non-friable asbestos and recommended further testing to determine if removal is required. The Phase I also noted that an oil release occurred at a property abutting 18-20 Curve Street in 2005. The source of the oil release was eliminated shortly thereafter, and a second test conducted by the Sponsor in January 2011 found no evidence of further release or unacceptable chemical levels. The third recommendation was to properly remove an above ground oil storage tank in 12 Curve Street.

The Sponsor is seeking a Comprehensive Permit under M.G.L. c. 40B. This state law allows for the waiver of local zoning requirements in exchange for a percentage of affordable housing at the site. As part of the Chapter 40B approval process, the Sponsor first submits a project eligibility application to DHCD. On October 9, 2013 the Newton Housing Partnership voted to support this application. The Sponsor is also seeking application support from the Mayor. DHCD will review the application and determine whether the site is generally eligible to apply for a Comprehensive Permit. If project eligibility is determined, the Sponsor will file for a Comprehensive Permit with the Newton Zoning Board of Appeals (ZBA). Before rendering a decision, the ZBA will open a public hearing and review more detailed plans, analysis and comments from interested parties.



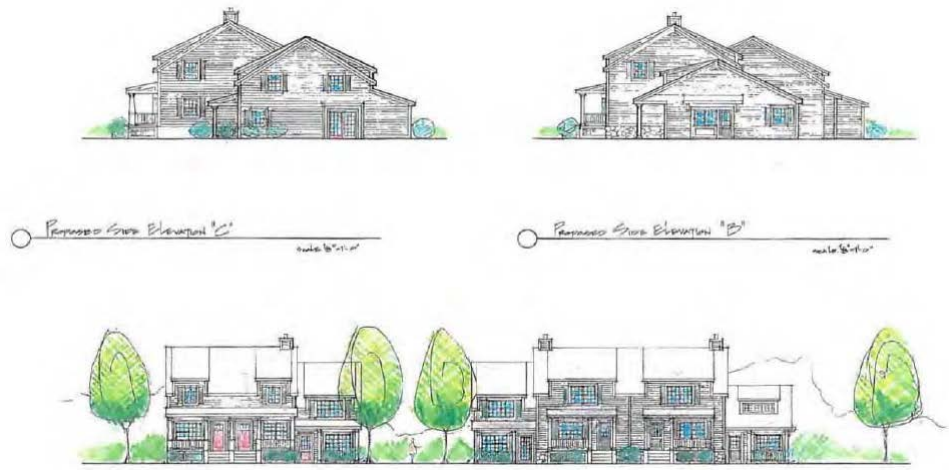
The site will include a van-accessible handicap parking stall and two drop-off parking stalls. Otherwise, to minimize on-street parking, the Sponsor proposes to locate the remainder of tenant parking (12 stalls) across Curve Street in the Myrtle Baptist Church parking lot through an easement. The Sponsor should seek a determination from the Newton Inspectional Services Department as to whether the church property will require a waiver to accommodate this off-site parking.

Design and Construction

The project must meet HUD’s housing quality standards as well as local and State building code prior to occupancy. Beyond these requirements, Staff emphasizes ensuring all major systems have an economic useful life for at least the duration of the HOME compliance period (20 years). The budget estimates a construction cost of \$145/square foot and rehabilitation cost of \$165/square foot. The proposed work includes complete gut-rehabilitation of the existing buildings and new construction of three slab-on-grade units. The rehabilitation scope of work includes:

- installation of new mechanical, electrical and plumbing systems
- reframing all interior partitions
- additional framing to exterior walls to facilitate new insulation to meet current energy codes
- foundation repointing
- removal of existing siding, stone veneers, vinyl, windows, doors, roofing material and finishes
- new interior fixtures and finishes
- site work, including new walkways, terraces, parking stalls and individual storage areas
- fire sprinklers in each building

The proposal will be required to follow the Stretch Energy Code. Elements to enhance sustainability include thicker demising walls, cementitious clapboard siding and trim, wood windows with Low E thermal glass, renewable wood flooring, low-VOC paint, wood cabinets and renewable countertops.



The scope of work and cost estimates are preliminary and will be further vetted by the Planning Department’s Construction and Rehabilitation Manager once the proposal is in the design phase and again before work is put out to bid. The Newton Purchasing Department will select the lowest responsive bidder through a competitive, sealed bid procurement process in accordance with City of Newton policy. Project contingencies will be released for justifiable costs upon review and approval by the Construction Rehabilitation Manager and the Newton Purchasing Department.

Project Costs and Financing

When reviewing projects, Staff considers whether the proposal meets the objectives of addressing a stated public purpose; is within the statutory intent of the CDBG and HOME Programs; and will provide decent, safe and sanitary affordable housing that is financially feasible and viable throughout the compliance period. Beyond this analysis, the City has also engaged a consultant to conduct an independent risk assessment and underwriting review. The projected total development cost is \$3,077,604. Project sources breakdown as follows:

Source	Amount	Cost Per Unit	% of TDC
Newton-Controlled (HOME/CDBG/CPA)	\$1,853,858	\$264,837	60%
Developer Equity (18-20 Curve Street)	\$632,000	\$90,286	21%
Permanent Loan	\$591,746	\$84,535	19%
All Project Sources	\$3,077,604	\$439,657	100%

The *Development Budget*, updated August 29, 2013, appears to include the necessary and reasonable development costs involved for a project of this size, scope and complexity. The developer fee, overhead and development consultant fees are projected at \$176,526, or 9 percent of net total development costs. This is less than DHCD’s 10 percent profit limitation for Comprehensive Permit rental projects. The Newton Housing Partnership and Staff recommend releasing the developer fee on a pro-rata basis upon the issuance of each unit’s certificate of occupancy.

CDBG and HOME funding will be in the form of a deferred payment loan at 0% interest for a 50-year term and forgiven at loan maturity. The Village Bank currently holds a \$425,000 mortgage on both properties as a single parcel. The outstanding balance is approximately \$400,000. The development budget includes a \$191,756 construction loan at 6% interest. Upon project completion the construction loan will roll into the existing mortgage and convert to a \$591,746 permanent loan at a

projected 5.3% fixed rate at a 25-year term.¹ This is the maximum feasible mortgage amount the project can carry with current operating assumptions and sufficient income to service debt.

The ten-year *Operating Pro Forma* includes appropriate income and expenses with sufficient net operating income to cover debt payments and a sensible before-tax cash flow to the Sponsor. The income and expense inflation assumptions are consistent with those used by state housing financing agencies. The *Operating Pro Forma* proved resilient against sensitivity tests with spikes in taxes, utilities, vacancy rates, and maintenance costs. The replacement reserve amount per unit (\$300/unit) is less than the HUD-recommended \$700 /unit. While the current reserves are justifiable based on the significant rehabilitation and new construction, it would be reasonable to capitalize a replacement reserve with any unspent relocation allowance and lease up reserves.

The project’s feasibility is largely dependent on Newton-controlled sources and a Comprehensive Permit. Without these subsidies, this project as proposed would not be feasible. Reduction in subsidy would require less affordable units and/or construction scope. The table below compares the total development cost and Newton-controlled subsidy with similar projects since 2003.

Project Address/ Sponsor/Year	Project Type and Scope	# of Affordable Units	Total Development Cost	Total Public Subsidy/Unit*
12, 18-20 Curve Street Myrtle Village, LLC 2013	Rental – Rehab / New Construction	7	\$3,077,604	\$264,837
Webster House CAN-DO 2003	Rental – Acquisition and Rehabilitation	6 (SRO)	\$1,354,813	\$225,802
Pelham House Newton Housing Authority, 2005	Rental – Acquisition and Rehabilitation	10	\$3,108,053	\$ 174,859
192 Lexington Street SEB, LLC. 2011	Ownership – Acquisition and New Construction	10	\$5,322,027	\$308,673

*Includes public subsidy grants and loans

Architectural Accessibility

Although not required, the proposal includes new construction of one single-level living unit that will meet Group 2A design and construction standards of the state’s architectural accessibility code.² The project will also incorporate accessible design on the first floors of the constructed two-story units; the front and rear entrances of the newly constructed units will be “visitable” and the first floors of each unit will be accessible. The site work includes creating an accessible route from the accessible parking space to the accessible unit and along the sides and rear of the buildings.

Fair Housing and Equal Opportunity

The City and DHCD will review and approve an affirmative fair housing marketing and tenant selection plan prior to marketing, including targeted outreach efforts for the accessible unit. Pending

¹ Independent as-is appraisals commissioned by the City in September 2013 value 12 Curve Street at \$455,000 and 18-20 Curve Street at \$690,000. These values are higher than market value in 2011 - \$400,000 and \$630,000).

² A Group 2A unit can be modified without structural change to meet the specific needs of an occupant with a mobility disability and has greater floor space to accommodate occupants with a mobility disability.

DHCD approval, the City will also seek a local preference for up to five units. The proposal will also provide employment and contracting preference to low-and moderate-income residents and businesses, to the greatest extent feasible.

Addressing Community Need

As stated in the *FY11-15 Consolidated Plan* and the *FY14 Annual Action Plan*, it is a priority objective of the City to increase the supply of affordable rental housing. The *FY11-15 Consolidated Plan* needs assessment identifies the need for additional affordable rental opportunities. There is an established demand for affordable rental housing opportunities in Newton, with over 1,000 households on waiting lists at the largest affordable rental complexes in the City. This project is 100 percent affordable, going well beyond the minimum requirements. The project will also create and preserve new rental housing opportunities for a large diversity of household incomes, sizes and physical abilities. Providing an accessible unit where not otherwise required is a goal articulated in the City's "Accessibility in Affordable Housing" policy. Additionally, the proposal provides new construction of rental housing without demolishing existing structures.

The *FY11-15 Consolidated Plan* needs assessment also identifies the need for rental housing near public transportation to connect renters to services and jobs. The project provides opportunity for households to live close to public services and amenities, the West Newton commuter rail and bus transportation, and within a neighborhood with a rich heritage and strong sense of community. In 2011 the project received positive feedback from neighborhood residents, as indicated by letters included in the City's Funding Application. Some residents expressed concern about on-street parking at the Planning and Development Board's hearing in 2012. The Sponsor held a neighborhood meeting on October 21, 2013. The meeting was attended by 35 residents. Questions were raised about procedure, affordability requirements, how local preference would be implemented and who would live in the units, density, and how the property will be managed. Concern was expressed about a possible increase in parking on Curve Street due to current parking congestion on Prospect Street.

The Sponsor should continue engaging the neighborhood throughout the financing and zoning processes. Project abutters will receive notification from the Zoning Board of Appeals before it opens the public hearing on the Comprehensive Permit application.

Other Reviews

The Newton Housing Partnership has submitted a support letter dated October 22, 2013. They cited the favorable cost/unit compared to past projects, and the proposed level of affordability and accessibility. The Partnership recommended that the developer fee be released on a pro-rata basis upon the issuance of each unit's certificate of occupancy. They also recommend that the City review and approve property management and tenant selection and affirmative marketing plans.

RECOMMENDATION

Staff recommends funding for this project. The proposal directly addresses the city's affordable housing needs and objectives. It creates new affordable rental housing opportunities for a mix of household sizes, incomes and physical abilities close to transportation, amenities and services. The proposal is well within the statutory intent of the HOME and CDBG programs. The subsidy requested appears reasonable and necessary to create the proposed level of affordability and construction and

sustainability objectives. In addition to those already required under regulation, Staff further recommends, at a minimum, the following conditions prior to committing HOME and CDBG funds:

- Final relocation plan
- Local Initiative Program application support from the Mayor
- Written commitments from all other proposed funding sources
- Reasonable conditions as determined by staff identified in the HOME Risk Assessment

Staff recommends, at a minimum, that the Sponsor satisfy these or similar benchmarks before funding is disbursed:

- Property Management plan and agreement
- Affirmative Fair Housing Marketing Plan
- Comprehensive Permit and building and related permits
- Evidence of legal means of creating and accessing off-site parking
- Final development and operating budgets with updated rents (if necessary)
- Reasonable conditions as determined by staff identified in the HOME Risk Assessment
- Reasonable accommodation and modification policy from property manager
- Final scope of work, estimated costs and construction bid packet
- Construction plans meeting proposed accessibility standards and specifications