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MEMORANDUM

To: Planning and Development Board Members

From: Eamon Bencivengo, Housing Development Planner
Amanda Berman, Director of Housing and Community Development

CC: Community Preservation Committee Members
Lizbeth Heyer, Chief of Real Estate, 2Life Communities

Re: Request for a Substantial Amendment to the FY18, FY20 and FY21 Annual Action Plans to allocate \$255,143 of Newton HOME funds towards the production of new affordable senior units at the Golda Meir House Expansion project

Date: August 7, 2020

SUMMARY

The Project Sponsor, 2 Life Communities, is requesting an additional **\$1,500,000** from the City of Newton to support the production of 60 new affordable units at the Golda Meir House Expansion: \$1,244,857 in additional Community Preservation Act Funds (CPA) and \$255,143 in Newton HOME funds. The project's total development cost (TDC) is \$40,436,000.

The Golda Meir House Expansion will add 68 apartments (57 one-bedrooms and 11 two-bedrooms) to 2Life Communities' Golda Meir House (which currently contains 199 units of affordable senior housing) through two additions of new construction. The project will provide apartments affordable to seniors at a range of incomes, as well as to 9 chronically homeless individuals with disabilities. Of the 68 proposed units, 60 will be income-restricted, with the majority set aside for low- and extremely low-income seniors with incomes ranging from 30% - 100% AMI. Rents for the remaining eight units have no income restriction, but are proposed to be below a true "market rate."

The design physically integrates the new additions with the existing building in order to incorporate new residents into this vibrant senior community, where new residents will benefit from a wealth of programs, services and supports unavailable in a standalone affordable housing building. Having secured a Comprehensive Permit from the City of Newton in late 2018, an initial CPA fund award in

2018 of \$3.25 million, and state and federal funding in 2020, the project is positioned for a late 2020 construction start.

The Golda Meir House Expansion project has been a public-private partnership in the making for the past five-plus years. In the Fall of 2017, the City released a **Request for Proposals for the Sale of Municipal Property at 160R Stanton Avenue**, otherwise known as the Water Tower Site. This site was identified in the 2016 *Newton Leads 2040 Housing Strategy* as one of seven priority sites to advance affordable housing development in the City, specifically for seniors and residents with disabilities seeking supportive services. A key requirement for the purchase and redevelopment of this site was the construction and occupancy of 9 units of affordable housing for chronically homeless individuals with disabilities, including a social service plan to stabilize these individuals and move them towards economic self-sufficiency.

The City selected the 2Life Communities **proposal** (formerly JCHE) to expand their existing Golda Meir House at 160 Stanton Avenue, which already includes 199 units of affordable senior housing with extensive programming and services. The Golda Meir House directly abuts the Water Tower Site and 2Life's proposal envisioned a physical connection between the new and old buildings to integrate new residents into their vibrant senior community and to incorporate the building's management into a highly efficient operation.

The requirement for the creation of the 9 units of housing stems from the Conciliation Agreement executed and approved by HUD (U.S. Department of Housing & Urban Development) on May 12, 2015, in which the City of Newton agreed to create 9-12 units of housing for chronically homeless persons with disabilities. The City of Newton entered into this Conciliation Agreement with the Supporters of Engine 6, the Disability Law Center, Inc., and the Fair Housing Center of Greater Boston (collectively, the "Complainants") in response to a housing discrimination complaint against the City that was filed with HUD in 2013. While the Conciliation Agreement states that the units shall be produced and ready for initial occupancy within the five year term of the Agreement (May 2020), HUD recently approved a request by the City and the Supporters of Engine 6 for a three year extension of the term of the Agreement (May 2023).

In order to successfully provide 9 units of affordable housing for chronically homeless individuals with disabilities as part of this project, 2Life Communities has partnered with Hearth, Inc., a non-profit organization dedicated to the elimination of homelessness among the elderly through prevention, placement, and housing programs. Hearth and 2Life are currently working together on a similar project in Brighton.

2Life Communities is a nonprofit, nonsectarian provider of senior supportive housing in the Greater Boston area. Since 1965, 2Life has created over 1,500 affordable homes for low-income older adults in Brighton, Newton and Framingham, all of which are owned, managed and serviced by 2Life.

FUNDING REQUEST

The Project Sponsor, 2 Life Communities, is requesting an additional **\$1,500,000** from the City of Newton to support the production of these new affordable units:

City CPA	\$1,244,857*
City HOME	\$255,143

*Original CPA award in 2018 - \$3.25 million

Multiple years of Newton's HOME funds will be used to make up the full \$255,143 request, including:

- FY18: \$20,838.76*
- FY20: \$116,202.20
- FY21: \$118,102.40

*FY18 funds are the result of HOME Program Income

As described in 2Life's funding proposal, the additional \$1.5 million in CPA and HOME funds will enable 2Life leverage HUD 202 funds and provide a deeper level of affordability than 2Life originally presented to the CPC in 2018. In August 2019, 2Life applied for HUD Section 202 funds, the first time that HUD made them available since 2012. 2Life's 202 funding award – the only one in Massachusetts – includes \$4 million in Capital Advance funds and 25 Project Rental Assistance Contract (PRAC) vouchers. However, the HUD 202 award caused a financing gap as the PRAC rental payment standard is lower than the LIHTC, Section 8 and MRVP rents in the project's previous pro forma, causing a reduction in the cash flow needed to support a permanent mortgage loan.

The \$4 million in Capital Advance funds does not cover this financing gap because it is offset by the increased construction costs due to HUD's Davis-Bacon labor requirements. 2Life partially filled this gap by requesting additional deferred financing from DHCD and replacing the previously requested MRVP vouchers with project-based Section 8 vouchers that have a higher payment standard. The 20 Section 8 vouchers plus 25 PRAC vouchers will allow 2Life to serve a total of 45 Extremely Low Income (ELI) households at the Golda Expansion compared to 30 ELI households in their original proposal. The new unit composition is provided in the following table from the proposal:

UNIT COMPOSITION <i>List number of units in each category. Please identify which units are the HOME funded units.</i>						
UNIT TYPE	≤ 30% AMI (Section 8)	≤ 50% AMI (PRAC)	≤ 60% AMI	<100% AMI	No Income Restriction (Market-Rate)	TOTAL
1 BR	18 (9 HOME)	25	2	8	4	57
2 BR	2 (2 HOME)	0	3	2	4*	11

Note: All 45 apartments for the <30% AMI and <50% AMI tiers will have project-based vouchers, which will cover the difference between 30% of residents' actual incomes and contracted rents. The Section 8 vouchers will serve 9 non-age restricted, 1-bedroom units for chronically homeless individuals.

11 units will be HOME-assisted (9 1-bedroom, 2 2-bedroom), with rental-assistance provided by project-based Section 8.

The 8 Unrestricted apartments include 1 apartment with reduced rent set-aside for graduate student "scholars in residence." Rents for all other units with no income restriction are proposed to be below a true "market rate."

FINANCIAL ANALYSIS

The City of Newton Housing & Community Development Division has reviewed the joint CPA and HOME funding request from 2Life Communities dated 7/10/20 and has determined that the HOME Program funding allocation of \$255,143 for the proposed project to expand the Golda Meir House with the new construction of 68 units at 160 Stanton Avenue in Newton is feasible and within the HOME Program guidelines and regulations found in 24 CFR 92.250(b). Prior to the execution of a HOME Loan Agreement, a full underwriting and financial analysis must be performed, consistent with guidelines set forth by the U.S. Department of Urban Development and the WestMetro HOME Consortium.

➤ **Sources and Uses:**

The project's total development cost (TDC) is \$40,436,000, of which \$6,128,875 are soft costs (15.15% of the TDC). The developer's fee and overhead comes to \$2,600,000, or 6.43% of the TDC. As a LIHTC-financed project the projected soft costs and developer fee and overhead adhere to LIHTC regulations and will be subject to a strict cost accounting. The full project funding proposal, attached to this memo, provides a detailed project budget, operating income and expenses table, and 10-year operating budget.

The following table summarize the project's current funding sources, as compared to the original 2018 project proposal:

SOURCES	July 2020 Proposal	Nov. 2018 proposal	Difference
Permanent Loan	7,972,000	7,770,000	202,000
Fed Tax Credit Equity	10,162,081	10,298,970	(136,889)
State Tax Credit Equity	3,999,600	3,999,600	-
City of Newton CPA	3,250,000	3,250,000	-
City of Newton Additional Funding	1,500,000	-	1,500,000
DHCD Sub Debt	5,000,000	3,750,000	1,250,000
Utility Rebates (Sponsor Loan)	74,800	74,800	-
Golda Rehab Savings (Sponsor Loan)	835,400	-	835,400
Farnsworth + Weinberg (Sponsor Loan)	1,730,000	-	1,730,000
2Life Philanthropy (Sponsor Loan)	1,512,098	2,546,475	(1,034,377)
HUD 202 Capital Advance (Sponsor Loan)	4,000,000	-	4,000,000
Deferred Dev Fee	400,000	625,000	(225,000)
Total Sources	40,435,979	32,314,845	8,121,134

➤ **Income and Expenses:**

The projections for income and expense inflation are reasonable: 2% for all rent levels, 3% for all expenses, and a 5% management fee. The vacancy rate assumption for all units is 5%.

The operating budget is projected at \$772,026 or \$11,353 / unit. Operating costs include standard maintenance costs, resident services, security, utilities, taxes, and replacement reserve. The replacement reserve is estimated at \$360 per unit. Total revenue is \$1,311,045 with a total net revenue of \$1,245,493. Net operating income is \$56,690.

➤ **Cash Flow – Return on Equity:**

The project maintains a healthy cash flow projection as outlined in the project’s 10-year operating budget. The projected net cash flow after debt service in year 10 (2031) is \$54,472 which results in a 1.13 debt service coverage.

➤ **HOME Apportionment:**

The HOME Final Rule at 24 CFR 92.205(d) requires that the proportion of the total development costs charged to the HOME program must not exceed the proportion of the HOME-assisted units in the project. This test creates a cap on the total amount of assistance that may be provided for a specific number of HOME units in a project; or creates a floor on the number of HOME units that may be created for a specific dollar amount of total HOME assistance in a project.

The following apportionment test shows that there must be **at least 1 HOME unit in the project.**

	TDC
Total Development Cost	\$ 40,435,879
Proposed HOME Assistance	\$ 255,143
Percent of HOME Funds	0.6%
Total # of Units	68 Units
	68 X 0.6% = 0.4; rounded up to 1
Minimum # of HOME Units	unit
Proposed # of HOME Units	2 Units

➤ **Maximum and Minimum Per-Unit Subsidy:**

The minimum HOME subsidy that can be invested per unit is \$1,000.

The maximum HOME subsidy per HOME-assisted unit that a participating jurisdiction can provide to a project cannot exceed the per-unit dollar limitations established by HUD. To the right are the 2020 maximum HOME per unit subsidy limits for 0, 1, and 2 bedrooms for Maine, Vermont, New Hampshire, Massachusetts and Rhode Island. These limits are effective as of June 4, 2020.

Bedrooms	HOME Maximum Per-Unit Subsidy
0	\$153,314
1	\$175,752
2	\$213,718

The maximum HOME per-unit subsidy limit creates a cap on the total amount of HOME assistance that may be provided for a specific number of units in a project; or creates a floor on the number of HOME units that may be created for a specific dollar amount of total HOME assistance to a project.

The following Maximum Per-Unit Subsidy Limit Tests show that requested amount of \$255,143 of HOME assistance falls below the maximum amount of HOME assistance allowed for the project. The two HOME assisted units may be designated as:

- 2, one-bedroom units,
- 2, two-bedroom units, or
- 1, one-bedroom unit and 1, two-bedroom unit

The project is proposing 2, two-bedroom units to be designated as HOME assisted units. These will be allocated to tenants receiving Section 8 vouchers.

The HOME affordability period will be governed by an affordable housing restriction for 20 years; however, per the project's Comprehensive Permit, the affordable units shall remain affordable in perpetuity. HOME-assisted units will be monitored annually by the City in terms of rent setting, quality standards, and income qualification of tenants.

While subject to a complete underwriting analysis prior to funding commitment, staff proposes setting the rents for the two HOME-assisted units up to 60% AMI (the high HOME rent).

SUBSTANTIAL AMENDMENT

The \$255,143 of requested Newton HOME funds will be used to support the creation of new affordable units at the Golda Meir House Expansion project. Multiple years of Newton's HOME funds will be used to make up the full \$255,143 request, including:

- FY18: \$20,838.76*
- FY20: \$116,202.20
- FY21: \$118,102.40

*FY18 funds are the result of HOME Program Income

The utilization of the City's FY18, FY20 and FY21 HOME dollars requires a substantial amendment to the FY18, FY20 and FY21 Annual Action Plans.

Per the City of Newton Housing and Community Development Program Citizen Participation Plan, a Substantial Amendment is defined, in accordance with the U.S. Department of Housing & Urban Development (HUD) regulations 24 CFR 91.505(a), as:

- A substantial change in allocation priorities (any change greater than 25 percent in an individual project's total budget) or a substantial change in the method of distribution of funds;
- A new activity (including those funded exclusively with program income) not previously covered by the Newton Consolidated Plan or Annual Action Plan; or a

Max HOME Per-Unit Subsidy Test	
Proposed HOME Assistance to the Project: \$255,143	
Option 1: 2, one-bedroom units	
Unit Type	Max Per-Unit Subsidy
1-bedroom	\$175,752
1-bedroom	\$175,752
# of HOME Units	2, one-bedrooms
Max HOME Assistance to the Project	\$351,504
Option 2: 2, two-bedroom units	
Unit Type	Max Per-Unit Subsidy
2-bedroom	\$213,718
2-bedroom	\$213,718
# of HOME Units	2, two-bedrooms
Max HOME Assistance to the Project	\$427,436
Option 3: 1, one-bedroom unit and 1, two-bedroom unit	
Unit Type	Max Per-Unit Subsidy
1-bedroom	\$175,752
2-bedroom	\$213,718
# of HOME Units	2
Max HOME Assistance to the Project	\$389,470

- Substantial change in the purpose, scope, location or beneficiaries of an activity.

RECOMMENDATION

Based on the merits of the proposal, consistency with community need identified in the 2021-2025 Consolidated Plan and evidence of community support, **staff recommends that the Planning & Development Board vote to approve the request for a substantial amendment to the FY18, FY20 and FY21 Annual Action Plans to allocate \$255,143 of Newton HOME funds towards the production of new affordable units at the Golda Meir House Expansion project.**

It is important to note that all 13 WestMetro HOME Consortium communities, including Newton, are subject to a 12-month Exclusive Use Period for their annual entitlement funds. Any HOME entitlement funds that are not committed by the member community to an eligible HOME project after 12 months from the start of the fiscal year shall be transferred to the Consortium's Competitive Funding Pool for use by any member community through a Request for Proposals (RFP) process. All transferred funds are referred to as Relinquished Funds. Program Income is not subject to the exclusive use policy.

Given the Consortium's Exclusive Use Policy, Newton's FY20 HOME funds will be relinquished to the Consolidated Pool if they are not committed in the next few months. The Golda Meir House Expansion project provides Newton with a strong program-eligible project with which to utilize these important federal funds.

Staff recommends the use of HOME funding as described above, with the following pre-conditions:

- a) HOME funds cannot be committed until a HOME underwriting analysis is completed for the project.
- b) HOME funds cannot be committed until firm commitments are received from all other sources identified in the most recent Development Budget (this is a federal requirement).
- c) HOME funds cannot be committed until completion of the Environmental Review Record and HUD issues the Authority to Use Grant Funds.
- d) Project cost savings are returned proportionally to the respective grant program(s) upon completion.
- e) Project proponents, 2Life Communities, 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. Four months following the start of project construction to report on progress;
 2. At project lease-up to submit a project completion report;
 3. As needed.