

CITY OF SOMERVILLE, MASSACHUSETTS
SOMERVILLE AFFORDABLE HOUSING TRUST FUND
JOSEPH A. CURTATONE
MAYOR

Mary Cassesso, Managing Trustee

Trustees
Michael Feloney
Kathryn Gallant
David Gibbs
Donna Haynes
Andrea Shapiro
Brielle Short
Councilor Kristen Strezo
Jessica Turner

Minutes
Thursday, June 10, 2021 Meeting – 5:15pm

Meeting started at 5:17 pm, with Andrea Shapiro serving in the role of chair person

Trustees attending: Michael Feloney, Kathryn Gallant, David Gibbs, Andrea Shapiro, Brielle Short, Kristen Strezo, Jessica Turner

Trustees *not* attending: Mary Cassesso, Donna Haynes

Staff attending: Paul Goldstein, Lisa Davidson

Members of the public attending: Alex Bob, Sam LaTronica, Somerville Community Corporation

1. Continued Business

• **SCC Updates: 100 Homes review and related issues**

Paul Goldstein introduced Sam LaTronica, Real Estate Director for Somerville Community Corporation (SCC), to continue discussions initiated at the Trust’s May meeting in connection with a potential 100 Homes acquisition that had not proceeded as expected due to lender concerns on the status of SCC finances. Sam began with a quick review of the issues that had emerged in connection with SCC’s efforts to acquire 147 Cedar Street, many of which related to issues concerning administration of the 100 Homes program overall.

Sam noted that SCC had undertaken a review of the program with OSPCD, to assess the status of 100 Homes prior to embarking on its potential expansion. Trust staff had circulated a memorandum, one of two SCC had prepared in light of the detailed nature of the issues involved, which served as the basis for ensuing discussion. In response to a Trustee question, Sam explained that while the pandemic and delays on the completion and sale of units at 163 Glen Street were contributing factors to fiscal challenges SCC currently is working through, many challenges also involved issues specific to 100 Homes.

David Gibbs joined at approximately 5:22 pm

Trustees noted the importance of gaining an overall understanding of SCC’s financial position, and inquired about when the next SCC audit would be available for review. Sam’s understanding was that the audit expected in June; he hoped to be able to share it within roughly a month. Sam further noted that SCC’s real estate activities have a significant effect on the organization’s overall financial position; and that when the real estate portfolio struggles (including 100 Homes) the rest of the organization struggles as well.

David Gibbs shared his experience that there can be a tendency for nonprofit funding sources to underfund the real costs of doing business, and observed that challenges SCC is facing seem consistent with ones many nonprofit organizations experience. Andrea Shapiro suggested that

Sam walk through each issue outlined in the memo and the potential solutions identified along with critical issues. All of the issues covered in SCC's first memo are part of the overall challenge of underwriting assumptions.

Kristen Strezo joined the meeting at 5:42 pm

Issue 1-Operating Expenses.

SCC's staff generally sees operating expenses in project operating budgets as being underfunded. Sam noted that other SCC projects have substantially higher operating expenses. He explained that the operating expense that were underwritten for initial 100 Homes acquisitions have fallen short of actual operating expenses. A first step to a possible solution would be to determine what a reasonable increase in operating expenses would be for future pro formas, so that when properties are evaluated for a potential acquisition, operating expenses are adequately funded in the operating budgets.

Sam acknowledged that increasing the operating expenses levels in future pro formas would require an increased subsidy for future acquisitions, which would require more funding from the Trust or other potential sources.

Brielle Short asked about the ability to increase tenant satisfaction and retention with an increase in operating expenses. Brielle noted that at least three SHC tenants in 100 Homes units are dissatisfied with how the units are being managed and have indicated they are desperate to leave those units.

Mike mentioned two areas identified as ones for comparative savings, when the program was originally designed. Accounting and legal costs both were projected to be lower than on "big tax credit deals". Mike also noted the inherent challenges of managing a scattered site portfolio like that of 100 Homes as it relates to operating expenses.

Issue 2: Vacancy Rates

Sam explained that SCC originally underwrote 100 Homes acquisitions using a projected 5% vacancy rate. Vacancy rate for these units ran closer to 8%. Sam further explained that extended vacancies are often the result of potential tenants having to go through a rigorous income certification process, and that some units were in need of rehab or repair before they could be occupied. A potential the solution for this issue would be to underwrite an increased vacancy rate for future projections; Sam acknowledged this would pose similar challenges as increasing operating expenses.

Katie Gallant noted that SHA has issued Section 8 vouchers to households trying to utilize them, and that could be used to help fill some of the vacant units. David also indicated CAAS potentially could help with efforts to fill vacant units. Paul noted he would provide contact information so that Katie and David could follow up with Sam after the meeting.

Kristen Strezo posed a question with regard to the status of the Managing Trustee. Mike explained that Mary Cassesso expected to be taking a leave of absence from the Trust. Mike noted that Mary's decision to take a leave of absence was a recent development, with Mary having communicated regarding it within the last several days, and that this item will be revisited with regards to naming an acting Managing Trustee in her stead.

Brielle suggested to Sam that SCC consider working with Permanent Supportive Housing programs, and noted that the units in those programs are rarely, if ever, vacant. Brielle also suggested Project Based vouchers which are issued by DHCD and can pay for up to 60 days of vacancy as a possible solution.

Andrea Shapiro left the meeting at 6:00 pm, Mike Feloney assumed the role as chair following her departure

Issue 3: 100 % AMI Units.

Sam next described challenges SCC is having in regard to filling 100% AMI units. He noted that the rent for most 100% AMI units are similar to market rent, and that the various requirements for potential tenants, notably the income certification process, makes these units harder to fill. Some tenants have opted instead for market rate units which have similar or less rent without such requirements. Sam indicated that SCC is relying on voucher holders to fill these units. Brielle mentioned that 100% AMI units are above HUD's Fair Market Rent, so most vouchers would not be a particular benefit.

Jess Turner noted that many residents in the Clarendon public housing development would like to relocate, and noted they would prefer a vacant 100 Homes unit.

Sam outlined potential solutions for the issues of filling 100% AMI units:

- Use additional subsidy to buy down the affordability of the units, creating less debt service.
- Change the AMI restriction which would lower the rent.
- Raising the income limit which would widen the pool of applicants.
- Rebranding the units as market units and eliminate the income certification requirement.

David noted that his initial sense is that there is more of a demand for units with lower AMI, and suggested that a deeper dive is warranted into assessing the needs of various income tiers. Mike noted the Housing Needs Assessment which is currently being completed may be a resource for this. Sam reiterated that demand is clearly higher for lower AMI units.

Brielle asked Sam to further explain what the potential solution of increasing the amount of subsidy on 100% units to buy down the affordability would mean for the Trust, and asked if SCC would be approaching the Trust for more funding to accomplish this. Sam indicated that approaching the Trust for additional funding was one option SCC was considering, but also acknowledged SCC would be looking into additional funding sources as well. Brielle indicated it would be helpful to see a breakdown of how much subsidy was needed in order to buy down the affordability of the units. Sam noted that the 100 Homes Guidelines specify that the program should include a certain amount of units at different income tiers, and noted that lenders are more likely to finance projects with 100% AMI units as they produce more rent than lower tiered units.

In the interest of time, Trustees did not provide feedback or pose questions regarding the final two issues that Sam presented

Issue 4: Inflexibility of Rents.

Sam discussed the challenges of not being able to adjust rents accordingly based on location/amenities and other factors that a market rate unit would take into consideration. For example two 80% AMI units would incur the same rent, but could be vastly different in what they offer for tenants. Tenants often ask why the rent has not been adjusted for those reasons, and this has led to increased vacancy rates. This issue is a direct result of having scattered sites across the city with larger developments in one location, this is not an issue.

Sam outlined the potential solutions regarding the inflexibility of rents for 100 Homes units:

- Finding some sort of percentage to underwrite the rents which would allow for a cushion to help with pro forma projections.

- Having the ability to reduce the rent of the unit after a prolonged vacancy or lack of interest.

Issue 5: Under-budgeting of Rehabilitation Costs in Pro Formas.

Sam noted that several properties that are acquired by SCC need significant rehabilitation prior to occupancy, and on numerous occasions the pro formas for these properties would not accurately capture the true cost of that work. Even when rehab/construction costs were presented accurately in the pro forma, vacancy rates were not adjusted to the time required to complete the needed repair work. The solution would be to make sure that the cost for needed rehab/construction, the vacancy rate, and the time it takes to complete any rehab/ construction on the property are accurately reflected in all pro formas going forward. Sam noted it had proven hard to break a cycle of having vacant units that did not produce income which would in turn fund rehab/construction costs.

The Trustees thanked Sam for his time, and Mike proceeded to other agenda items.

- **SAHTF Home Rule Petition Status**

Paul indicated to Trustees that the Trust's Home Rule Petition was referred to the Committee on Housing on March 29th, and that he reached out directly to the Committee for an update. Paul noted that the subject matters for upcoming hearings had yet to be scheduled, and that would likely be the case at the time of the June Trust meeting. Paul indicated that staff would inform Trustees as soon as they receive notice that the HRP is scheduled to be heard by the Committee.

Jess Turner left the meeting at approximately 6:30 pm at which point the quorum was lost.

2. *New Business*

- **Financial statement(s) review (CPA Account)**

Mike noted the time was 6:45 pm, and asked Trustees if it was their preference was to take this item up at the next meeting. Trustees agreed to revisit this item at the July meeting.

3. *Communications*

No communications were shared with Trustees.

4. *Announcements*

No announcements were made.

5. *Adjournment*

Mike made a motion to adjourn at 6:46 pm, noting that since there was no longer a quorum the May meeting minutes could not be voted on and approved. The motion to adjourn, and to table the review of the CPA financial reports, was passed unanimously by a roll call vote.

Next Meeting Date-The next meeting date will be July 8, 2021 at 5:15pm. It will be held remotely using Zoom. Instructions to join the meeting will be provided on the meeting agenda posted at City Hall and on the City's website

Documents Distributed:

- Updated CPA Trust Financial Reports
- May Meeting Minutes Draft
- Memo from SCC outlining issues and possible solutions facing 100 Homes