

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, July 8, 2021 Meeting – 5:15pm

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

Trustees not attendance: Mary Cassesso

Staff attending: Paul Goldstein, Lisa Davidson

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

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

1. Review and Approval of May and June 2021 Meeting Minutes

Donna Haynes introduced a motion to approve the May meeting minutes, Katie Gallant seconded the motion. The motion passed unanimously by roll call vote.

Katie Gallant introduced a motion to approve the June meeting minutes. Donna seconded the motion. The motion was approved unanimously by roll call vote.

2. Continued Business

Somerville Community Corporation (SCC) Update: 100 Homes review and related issues. Paul Goldstein introduced Sam LaTronica, real estate director for SCC, who was in attendance to continue discussions from last month's Trust meeting with regard to challenges facing SCC and the 100 Homes Program. Sam and SCC had prepared part two of a three part memorandum for Trustees to review, and walked through each of the main points outlined in the memo. Mike Feloney noted the point made at the prior month's meeting, that while 100 Homes-related activities play a major part in SCC's current financial position, it does not represent a full picture of the organization as a whole. (Staff expect that SCC CEO Gonzalo Puigbo will be attending an upcoming Trust meeting to provide a general update in that regard.)

Sam noted that SCC has been following up on suggestions and feedback from the Trust's discussion in June, and that SCC's second memo focused on challenges with the acquisition process for 100 Homes properties. Sam proceeded to present each of the issues outlined in the second memo and responded to feedback and questions raised during the discussion.

- Issue 1: Holding Period Timeframe. The length of time between initial acquisition and permanent financing has been an issue on several 100 Homes acquisitions. Extended holding periods have meant additional interest costs as high as 6%, which added to the overall development costs of the acquisition. On some transactions SCC has been able to coordinate with City staff and its lenders to close on-schedule.

However, on transactions acquisitions – particularly comparatively large ones that have involved bond refinancing and which were reliant on payments from outside sources at a future date (i.e. FRIT), interest reserves included in project pro formas have ended up being under budgeted. Some properties acquired were held for almost two years and incurred far more interest than projected in original pro formas.

Potential solutions for the holding period timeline issue included adding as much soft debt as possible up front, which would decrease the need for acquisition funds and would lower overall development costs, as well as allow for affordable housing deed restrictions to be put in place sooner. Having as much soft debt funding up front as possible would be more advantageous than relying on the promise of future payments while interest costs are being incurred.

Sam acknowledged there is a give and take with acquiring properties as soon as possible - the sooner a property is acquired the sooner affordable units are created; however, such speed has sometimes meant higher costs. Another proposed solution would be to pursue off market opportunities with so-called “benevolent” sellers who have a comparatively flexible timelines, and can wait for a permanent financing package to be put together, which would allow SCC to forgo acquisition financing and associated interest costs entirely.

Kristen Strezo asked about the possibility of working with benevolent sellers. Sam replied that he believed many potential sellers would be open to the idea of working with SCC, especially since the properties are acquired at market rate. Mike noted that this was an area where staff have offered SCC feedback. One possibility is that certain sellers may be more willing to sell their property with an extended timeline than others due to the nature of their desire to sell, such as preparing for retirement, or are not in a hurry to relocate.

Donna asked if SCC has considered partnering with sellers who may wish to continue to reside on the property, but are willing to convert the rest to affordable units with SCC offering to cover the necessary rehab/construction costs. She cited elderly residents as a potential target for this type of arrangement. Kristen noted this was a compelling idea, and agreed with Donna that SCC would want to continue thinking outside the box and consider ideas like the one posed by Donna.

- Issue 2: Broker’s Price Opinion

SCC has found the need for a Broker’s Price Opinion (BPO) to be a problematic requirement. Sam acknowledged that the City needs to make sure the acquisition is not undervalued, but in many cases the BPO would exceed the formal appraisal, and is not as strong an indicator for the true value of the property. Requiring a BPO has also made it difficult for SCC to operate without a broker, as most brokers will not provide a BPO without representing the overall transaction, which leads to additional fees.

Potential solutions for the BPO issue include eliminating the requirement altogether, and instead adding language to the commitment letter that funding is contingent on an accurate appraisal.

Andrea Shapiro asked Housing Division staff why the requirement for a BPO is in place and what sort of flexibility exists with removing it. Mike responded that he believes there is some flexibility for the requirement, and noted that the intention was to provide an initial indication that any potential project would be financeable without having to wait for a full appraisal, which often took a significant amount of time. At the time the requirement was put in place, SCC had a solid relationship with a specific broker, and obtaining a BPO as not an issue. Mike further noted that often the appraisal would not come in until just before closing, but that timeline has since improved. Sam added that SCC still does have a relationship with a broker who can provide a BPO, but noted that when off market transactions are pursued the BPO becomes an issue.

Donna noted that brokers tend to exaggerate the price, and suggested having some sort of an arrangement with an appraisal company for a soft appraisal instead of a BPO, which would allow for a more accurate initial assessment. Sam noted that SCC has been building a relationship with an appraisal company. Mike followed up Donna’s suggestion, noting it was an interesting idea

but that in his experience, appraisers can be difficult to work with; however, building a relationship with a particular company would be beneficial.

- Issue 3: Developer Fee and Overhead

SCC has been unable to draw paid developer fee for its 100 Homes acquisitions in an amount that is sufficient to cover its operations and staff time required of the program, resulting in the need to apply for additional funds elsewhere. SCC is appreciative of the funding provided by the City and Trust which have accounted for some of these costs. However SCC feels that the process could improve by including appropriate fee/overhead costs in earlier stages of development. Sam noted that past pro formas have not been consistent or formulaic when assessing the true costs of developer fees and overhead.

Potential solutions for the developer fee and overhead issue include SCC being more consistent and deliberate about these costs in the acquisition process so funding can be provided up front; this can be achieved by using the same methodologies and formulas as MassHousing and DHCD.

Andrea asked if a follow up fee proposal is needed with SCC's next potential acquisition. Sam replied that the fee structure is being reviewed to match the specific property, and SCC is working with the City to come to an agreement on that proposal.

- Issue 4: Identification of Needed Rehab

SCC's experience with prior acquisitions has suggested that gaining a clear understanding of the necessary rehab and repair on a property in advance of acquisition is critical to success. Prior to 2020, SCC acquired a number of properties in which the necessary renovation work and the subsequent increased vacancy rate was not accurately projected in the planning process.

Potential solutions for this issue include having a representative from OSPCD or the Inspectional Services Department (ISD) accompany SCC on site visits to help assess the scope and cost of potential rehab work. If the rehab work and subsequent vacancy rates are accurately planned for, acquisition costs over time could be reduced. A certified home inspector could also accompany SCC on site visits in addition to their own architect and maintenance technician.

Mike acknowledged that SCC has been very focused on this issue, and that recent acquisitions have fared better. Mike noted that with the City reopening to the public next week, there will no longer be any restrictions on staff accompanying SCC on site visits.

Andrea expressed concern that necessary rehab may become the basis for price negotiations, and could make acquisitions more difficult. Andrea also expressed concern with involving ISD in site visits, as that could lead to involuntary tenant displacement due to the condition of the property. Sam noted that SCC would much rather lose out on a property due to being realistic about the total cost than to acquire a property and for it to become a financial burden to SCC and a burden to the tenants. Trustees echoed Sam's sentiment, noting the importance of good due diligence on organizational viability and avoiding situations where that viability suffers down the road.

David Gibbs inquired about the culture at SCC which allowed for the inaccuracy of acquisition costs to be so pervasive, and if there had been a change in that culture. Sam felt this was reflective of SCC's previous leadership having an aggressive mindset to acquire as many properties for affordable housing as possible, leading to budgeting missteps. Sam acknowledged that there has been a cultural shift by SCC in terms of a more conservative approach to acquiring properties, and noted that SCC's current staff benefits from hindsight that was not available to their predecessors.

Mike noted that in fairness it is important to acknowledge the situation SCC's current administration had found itself in, and that the organization has been under a significant amount of pressure, and to SCC's credit, they have taken some hard lessons from past history. Katie Gallant acknowledged the difficulty of the current real estate market, which included higher costs

for rehab. Jess Turner noted she was in favor of SCC's suggestion to include ISD on site visits, and that it was important for as many tenants as possible to reside in units that are up to code.

Donna noted at the beginning of the 100 Homes program, properties were selling at a rapid rate, and if SCC had not acted quickly 100 Homes would not have been as much of a success. Donna continued, noting that 100 Homes may be able to benefit from the pace of the real estate market slowing down which has been the case in recent months.

- Issue 5: Purchasing Occupied vs. Vacant Properties

The initial goal of 100 Homes was to purchase as many vacant properties as possible in order to avoid having to displace tenants who were not income eligible. However, market conditions made it difficult to find unoccupied properties to acquire. Sam noted there are benefits and disadvantages to both approaches; occupied properties produce income right away, but tenants may be asked to relocate. While vacant properties do not present the issue of tenant relocation, the timeline for getting the property to a point where it can produce income is much lengthier than with a property that was occupied at the time of acquisition.

Potential solutions to this issue include properly evaluating the costs and timing associated with bringing a vacant property online, and only pursuing those that staffing capacity and funding can permit. When evaluating an occupied property, vacancy rates should still be accounted for in the event tenants voluntarily leave the units once informed the property is to be sold.

Andrea noted that 100 Homes initially anticipated acquiring occupied properties, and because of that City funding was proposed so tenants would not have to be displaced, which would not have been the case if the project used Federal funding. Mike noted that City staff were keen to not displace tenants if at all possible, but that Federal funding had been used for 100 Homes acquisitions when necessary.

David Gibbs left the meeting at 6:31 pm

Andrea thanked Sam for presenting the memo, and asked him to provide any closing thoughts. Sam noted that he has begun drafting the third part of the memo, and encouraged Trustees to reach out to him with any further comments or questions.

A 5 minute break commenced at 6:38 pm, and the meeting resumed at 6:43 pm

Managing Trustee status and related items

Paul updated Trustees regarding the status of Mary Cassesso and her potential leave of absence from the Trust. Paul explained that Mary is currently debating whether it is most appropriate for her to step away from the Trust completely, or only to step down as Managing Trustee, and that a clearer understanding of Mary's return to the Trust should be available by the time of the annual meeting in the fall. Paul suggested for the time being, a vote should be taken to name Andrea the Acting Managing Trustee so Trust business could continue accordingly.

Mike noted that staff had touched base with the Housing Counsel Kelly Donato, who confirmed that the Trust's governing documents do not speak specifically to a Trustee taking a leave of absence, but they do speak to a Managing Trustee having to be appointed by the Board.

Kristen Strezo put forth a **motion** at 6:46 pm to appoint Andrea as Acting Managing Trustee. Donna seconded the motion, and the motion was passed by a unanimous roll call vote with Andrea abstaining, Andrea accepted the appointment.

Kristen Strezo left the meeting at 6:49 pm

3. *New Business*

Financial report(s) review (CPA Account)

Paul reviewed the most up to date financial reports for the Trust's CPA account through March, 2021. Paul noted that Lisa Davidson had worked extensively to update the status of the outstanding financial commitments the Trust has made with CPA awards, and that these items would continue to be updated for subsequent reports. Paul noted that the reason negative balances appeared on the reports before March was because these items had not been updated, and the March report reflects a positive balance.

Andrea asked for clarification about one outstanding commitment that had a zero-balance. Lisa explained that the agency who received the award indicated it was no longer in need of the funding, and so the balance was zeroed out. Andrea also asked about 29 Jackson Road and why it had not been carried as an outstanding commitment on previous reports. Housing staff indicated that the property was initially thought to be part of 100 Homes, but was confirmed not to be and was subsequently displayed as an outstanding CPA commitment. Donna introduced a motion to accept the reports at 7:03 pm, Katie seconded the motion, and the motion passed unanimously by roll call vote.

4. *Communications*

Andrea requested the following items be carried as standing agenda items for subsequent meetings: Strategic Planning, Trustee board appointments/status, the Home Rule Petition, the status of the Powers & Sullivan financial review, and the status of contracts for FY21 awards. Andrea also noted that while the August meeting had been skipped in years past, with the amount of important agenda items yet to be discussed it would be beneficial to meet in August as planned. Paul said he would survey Trustees on availability for an August meeting.

Mike noted that the agenda items that were left off were to help ensure time for SCC's presentation and allow for Trustees to offer feedback. Andrea suggested that Paul could prepare a memo in advance of the August meeting which would provide updates to the agenda items she had brought up.

5. *Announcements*

No announcements were made.

6. *Adjournment*

The meeting was adjourned at 7:12 pm.

Next Meeting Date-The next meeting date will be August 12, 2021 at 5:15pm, and will be held remotely.

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
- June Meeting Minutes Draft
- Memo from SCC outlining issues and possible solutions facing 100 Homes