



CITY OF SOMERVILLE, MASSACHUSETTS
MAYOR'S OFFICE OF STRATEGIC PLANNING & COMMUNITY DEVELOPMENT
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PLANNING DIVISION

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Date of Decision: December 8, 2016
Decision: *Petition Approved*
Date Filed with City Clerk: May 4, 2017

PLANNING BOARD DECISION

Applicant Name:	Michael Feloney, Housing Director, Mayor's Office Strategic Planning & Community Development
Applicant Address:	50 Evergreen Avenue, Somerville, MA 02145
<u>Legal Notice:</u>	Per Somerville Zoning Ordinance (SZO) section 13.3.3, the Board will review and vote upon policy changes to facilitate the creation of affordable homeownership opportunities under the inclusionary housing program. The first change would revise the calculation establishing the purchase price of units available to households at or below 80%, 110% and 140% of Area Median Income (AMI). The second change would revise the basis for the interest rate to be used in calculating the monthly mortgage loan amount a household can afford. Section 13.3.3 of the Ordinance calls for the Special Permit Granting Authority to conduct a public hearing to receive comment prior to adopting any change in these standards.
<u>Date(s) of Public Hearing:</u>	December 8, 2016
<u>Date of Decision:</u>	December 8, 2016
<u>Vote:</u>	5-0

The above matter was opened before the Planning Board at the Somerville High School Library on December 8, 2016. Notice of the Public Hearing was given to persons affected and was published and posted, all as required by M.G.L. c. 40A, sec. 11 and the Somerville Zoning Ordinance. After one hearing of deliberation, the Planning Board took a vote.



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DESCRIPTION:

On December 8, 2016 the Planning Board opened a public hearing to review policy changes regarding the facilitation of the creation of affordable homeownership opportunities under the inclusionary housing program. The first change would revise the calculation establishing the purchase price of units available to households at or below 80%, 110% and 140% of Area Median Income (AMI). The second change would revise the basis for the interest rate to be used in calculating the monthly mortgage loan amount a household can afford.

Michael Feloney, Director of Housing for the City of Somerville Mayor's Office of Strategic Planning and Community Development provided the following memorandum to the Zoning Board of Appeals and the Planning Board.

As permitted under Inclusionary Zoning Ordinance section 13.3.3 Affordability, this memorandum has been transmitted by the Mayor's Office of Strategic Planning and Community Development Housing Division for the purpose of providing the Planning Board and Zoning Board of Appeals with information and recommendations on calculating the affordability of homeownership units, specifically as it pertains to the maximum monthly income for units restricted to households at or below 110% of Area Median Income (AMI), and interest rate to be used in calculating monthly mortgage loan amounts. Section 13.3.3II of the Ordinance calls for the Special Permit Granting Authority to conduct a public hearing to receive comment prior to adopting any change in these standards.

The overarching goal of the Inclusionary Zoning Ordinance and the Housing Division's efforts to carry out work under it is to ensure that inclusionary units remain affordable and foster homeownership opportunities accessible to low to moderate income households. Both of the following recommendations are intended to support the goal of affordability. The measures are especially warranted in light of continued escalation in the cost of both homeownership and rental housing in Somerville, as documented in the most recent Housing Needs Assessment completed in December 2015 in accordance with Ordinance section 3.8.

Ordinance section 13.3.3 II stipulates that the maximum sale price for inclusionary homeownership units shall be set at a level that allows households at eighty (80) percent, one hundred ten (110%), or one hundred forty percent (140%) of Boston area median income to afford the units. The section lays out the formula for calculating a sales price affordable to these households by building up from the monthly amount an income eligible household would have available to pay a mortgage with a 3% down payment and after expenses for property taxes, insurance, etc.

The formula starts by setting a maximum monthly income by dividing the maximum annual income by twelve (12). The section currently calls for the maximum monthly income for a particular household size to be derived from income figures published annually by the U.S. Department of Housing and Urban Development. In effect, this sets the maximum monthly income available for housing costs at the highest possible threshold of the income limit. Pricing the units at the highest threshold of the income limit consequently has the effect of making the units less attainable to those households that are not very close to the income limit.

It has been the experience of Housing Division staff that the income of many applicants is not at, or necessarily even close to, the highest end of the income eligibility threshold. Often it is below the income limit. This has the effect of narrowing the potential applicant pool for affordable units, since the number of households who can afford the necessary monthly mortgage payment is fewer than what it would be if the sales price was not based on the maximum AMI level.

The Housing Division recommends maintaining the income eligibility guidelines as set out in section 13.3.2, and promoting affordability by setting the maximum monthly income available for housing costs at 10% less than the maximum income eligibility limits. For an 80% AMI unit, the amount available for housing costs would be 70% of AMI. Likewise, for a 110% AMI unit it would become 100% of AMI and 130% of AMI for a 140% AMI unit.



This change would still enable households right at the 80%, 110% and 140% Area Median Income limits to apply, while basing the maximum sale price on calculations accessible to households at 70%, 100% and 130% of AMI.

As noted previously, pricing the affordability of the units at the highest end of the income limits also has the effect of reducing the potential applicant pool for affordable units. As homeownership prices based at the high end of 110% and 140% AMI begin to approach market rate prices, households at the highest end of these income limits will have more opportunity to decide between purchasing affordable units with a deed restriction and limited resale price and market rate units without any such deed restrictions or resale price limit. This can even further limit the potential pool of applicants.

The second area of change recommended is in regard to the calculation of a maximum monthly mortgage loan (MML) as stipulated under Section 13.3.3 II Homeownership. As written, the MML is based on the maximum monthly mortgage payment, assuming a “30-year term and at the then current conventional interest rate.” Housing Division staff has found that tying the interest rate to the then current conventional interest rate can create wide divergences in the maximum sales prices that can impact affordability. Depending on what conventional rates were at the time of initial purchase or subsequent resale, a household that purchased during a time of historically high rates, for example, could experience an unintended windfall of sorts if the purchasing household happens to be buying at a time of historically low rates at which they can afford a comparatively higher monthly payment. (It can also have the reverse effect, for a purchase at a time of low interest rates and a resale at a time of higher ones.)

The use of the ‘then current conventional interest rate’ has also proven to be an administrative challenge, as households selling their affordable unit sometimes look to ‘chase’ the absolute lowest rate through the course of a transaction. At the same time, low-to-moderate income first-time buyers are not always able to take advantage of the most competitive current conventional rates, as the applicable rates offered by a lender take into account applicant credit score, loan type, home price and down payment amount. These first-time homebuyers are not always able to put down a sizable down payment amount, and oftentimes the households are moving on from unaffordable housing situations which may have negatively impacted their credit scores.

In the face of continued escalation in purchase prices and fluctuations in interest rates over the years, Housing Division staff recommends that 5% serve as the “anchor” rate, in order to avoid dramatic price swings. Housing staff also request limited discretion in the interest rate utilized, in order to help ‘even out’ transactions in which a party bought at an historically high interest rate period and is selling at an historically low interest rate market (or vice-versa), and to stabilize potential maximum price swings. Specifically, we recommend discretion to reduce the rate used by up to one (1%) percent, for cases in which the 5% rate (and other calculations as outlined) would yield a resale price at or below what the owner paid for the property.

Finally, the Housing Division recommends providing for some flexibility to revisit these recommendations, should they be acceptable to the Planning Board and Zoning Board of Appeals, on an annual basis in light of ongoing market changes, in an effort to effectively serve affordability goals. Housing Division staff will be in attendance at the Zoning Board of Appeals and Planning Board’s November 16th and 17th meetings, respectively, to respond to questions on the proposed changes. Thank you in the meantime for your attention and consideration.

DECISION:

Present and sitting were Members Kevin Prior, Dorothy Kelly Gay, Rebecca Lyn Cooper, Joseph Favaloro, and Gerard Amaral with Michael Capuano absent. Upon making the above findings, Dorothy Kelly Gay made a motion to approve the request for a Special Permit. Rebecca Lyn Cooper seconded the motion. Wherefore the Planning Board voted **5-0** to **APPROVE** the request.



Attest, by the Planning Board:



Kevin Prior, Chairman

Attest, by the Planner, Zoning Case Review: _____
Alexander C. Mello

Copies of this decision are filed in the Somerville City Clerk's office.
Copies of all plans referred to in this decision and a detailed record of the
SPGA proceedings are filed in the Somerville Planning Dept.