



Setti D. Warren  
Mayor

**City of Newton, Massachusetts**  
Department of Planning and Development  
1000 Commonwealth Avenue Newton, Massachusetts 02459

Telephone  
(617) 796-1120  
Telefax  
(617) 796-1142  
TDD/TTY  
(617) 796-1089  
[www.newtonma.gov](http://www.newtonma.gov)

Candace Havens  
Director

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## MEMORANDUM

To: Planning and Development Board

From: Trisha Guditz, Housing Programs Manager  
Robert Muollo, Jr., Housing Planner

Cc: Candace Havens, Planning and Development Director  
Steve Laferriere, Senior Housing Project Manager, MWCD, Inc.  
Bart Lloyd, Chair, Newton Housing Partnership

Date: May 24, 2013

Re: 2042-2044 Beacon Street Affordable Housing Proposal

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### **1. Project Overview**

The Sponsor, Metro West Collaborative Development, Inc. (MWCD) is proposing to acquire and rehabilitate a former fire station, most recently used as administrative office space, to create 10 studio apartments, nine of which will be permanent supportive housing for chronically homeless individuals. The project is located at 2042-2044 Beacon Street in Waban.



The nine affordable units are targeted to individuals earning at or below 30% of Area Median Income (AMI). The tenth apartment will be occupied by an overnight house manager. Pine Street Inn, Inc. through its congregate housing development and management department, Paul Sullivan Housing, will provide supportive services and property management.

The projected development cost is \$3,089,877. The Sponsor is under agreement with the owner – a non-profit hospice organization – to purchase the property on August 12, 2013.

The Sponsor is seeking \$955,771 in Community Development Block Grant (CDBG) funding and \$407,855 in HOME Investment Partnerships Program (HOME) funding. The other proposed capital sources include state historic tax credit equity and Massachusetts Department of Housing and Community Development (DHCD) HOME and Housing Innovations Funds. The Sponsor is also seeking operating subsidies through the Brookline-Newton-Waltham-Watertown Continuum of Care (CoC) and eight Project-Based Vouchers (PBV) through DHCD. In the event that the Sponsor does not receive some or the entire tax credit award, then they will apply for Newton Community Preservation Funds. Finally, the Sponsor will be seeking a Comprehensive Permit through the DHCD Local Initiative Program (LIP).

Housing staff from the Housing and Community Development Division has reviewed the One-Stop Application submitted by the Sponsor and conducted a site visit. The Newton Housing Partnership (NHP) recommended approval of CDBG and HOME funds at their May 8, 2013 meeting. The NHP also voted to provide written support of the Sponsor’s application for Chapter 40B site eligibility to DHCD which requires the support of both the NHP chair and the Mayor.

## **2. Project Description**

The property is the former Waban Fire Station (also known as Engine 6). The property was built in 1917 and is 6, 164 sq/ft and sits on an 8,595 sq/ft lot. The property has three floors, including a basement. A non-profit hospice organization currently uses the property as office space. The project will consist of the following unit mix and characteristics:<sup>1</sup>

<b>Unit</b>	<b>Affordability Level</b>	<b>Contract Rent</b>	<b># of Beds</b>	<b># of Baths</b>	<b>Living type</b>	<b>Estimated Gross Living Area</b>
1	Up to 30% AMI	\$989	1	1	Studio / Accessible <sup>2</sup>	409 sq/ft
2	Up to 30% AMI	\$989	1	1	Studio / Accessible	492 sq/ft
3	Up to 30% AMI	\$989	1	1	Studio / Accessible	433 sq/ft
4	Up to 30% AMI	\$989	1	1	Studio	303 sq/ft
5	Up to 30% AMI	\$989	1	1	Studio	269 sq/ft
6	Up to 30% AMI	\$989	1	1	Studio	398 sq/ft
7	Up to 30% AMI	\$989	1	1	Studio	382 sq/ft
8	Up to 30% AMI	\$989	1	1	Studio	275 sq/ft
9	Up to 30% AMI	\$100	1	1	Studio (no PBV)	366 sq/ft
10	House Mgr.	\$270	1	1	Studio	371 sq/ft

## **3. CDBG and HOME Requirements**

### *3.A Environmental Review*

The City is currently conducting an environmental review of the project. The Sponsor has submitted a Phase I Environmental Site Assessment. The project must receive environmental clearance prior to commitment of federal or other funds and prior to acquisition.

<sup>1</sup> For illustrative purposes only - units not yet formally designated. Units charging \$989 in rent is net of electric utilities based on Newton Housing Authority utility allowance schedule as of October 1, 2012. Eight of the 10 units will be receiving project-based vouchers

<sup>2</sup> “Accessible” according to the Group 2 definition of the MAAB and implementing regulations at 521 CMR

### *3.B Income Targeting and Rents*

The project will serve households within the CDBG and HOME income targeting and rent requirements. Nine of the 10 units will be rented to *extremely-low income* individuals (earning at or below 30 percent of the AMI), which is \$19,850 for the Boston area.<sup>3</sup> The Sponsor is proposing to charge the 2013 Fair Market Rent for studios (\$1,035) for eight of the 10 units using project-based vouchers to offset the cost to the tenants. The contract rent is net of a \$46 utility allowance, as residents will pay for their own electricity (including electric stoves) through individual meters. The rent for the ninth affordable unit is \$100 since there is not a PBV to offset the cost to that tenant.

### *3.C Eligible Costs*

CDBG will be disbursed only for property acquisition and related carrying costs.<sup>4</sup> HOME will cover eligible rehabilitation hard and soft costs, and site improvements as necessary.

### *3.D Affordability Period*

The City will impose an initial 30-year affordability period enforced by a declaration of affordable housing covenants running with the land. Under Massachusetts General Law chapter 184, the City will submit an application to DHCD requesting that the project be affordable in perpetuity.

### *3.E Labor and Procurement Requirements*

The wage requirements of the federal Davis-Bacon Act do not apply to this project under CDBG or the Project-Based Voucher Program. The Newton Purchasing Department will manage a competitive, sealed bid procurement process in accordance with City policy.

## **4. Development Entity and Capacity**

The Sponsor is a certified Community Housing Development Organization in the WestMetro HOME Consortium. As part of the certification process, the Consortium reviews the organization's structure, staff development experience, organizational and financial capacity, board composition and service area to assess the organization's ability to carry out a HOME-assisted project.

The Sponsor has successfully completed one similar HOME-assisted project in the past and is currently developing a second project. The completed project, 1060 Belmont Street in Watertown, MA, involved the purchase and rehabilitation of an 18-unit apartment building in Watertown. The project utilized approximately \$750,000 in WestMetro HOME Consortium funds, as well as the Tax Credit Exchange program, Federal Home Loan Bank funds, DHCD Community Based Housing Initiative funds and a private bank loan. The Sponsor recently received tax credits and soft debt from DHCD, as well as \$560,000 from the WestMetro HOME Consortium for the purchase and rehabilitation of a 25-unit expiring use property in Watertown. The total development cost is \$5.5 million. The Sponsor is expecting to close on the DHCD funding for this project in mid-2013.

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<sup>3</sup> Boston-Cambridge-Quincy Metropolitan Statistical Area

<sup>4</sup> Eligible activities under 570.201(a) and 570.201(b)

## **5. Design and Construction**

### *5.A Site Plans & Zoning / Permitting*

The Sponsor plans a “friendly 40B” approach through DHCD’s Local Initiative Program. This approach involves proactive engagement with the neighborhood and requires letters of support from the Mayor and the Newton Housing Partnership in the Sponsor’s initial Site Eligibility Application to DHCD. Both the City and DHCD have 30 days to review and comment on the Sponsor’s application. The site can be deemed eligible for a Comprehensive Permit after the comment period. The Sponsor will engage in community meetings both during this comment period and prior to filing for a Comprehensive Permit with the City’s Zoning Board of Appeals.

The site work includes re-grading, installation of pavers, and striping 5-6 parking spaces along with landscaping improvements to improve site drainage. An exterior staircase in the rear of the property may be relocated, but the building envelope will not change.

### *5.B Proposed Rehabilitation*

The Sponsor has proposed gut rehabilitation with a focus on environmentally friendly design, systems and materials and the creation of handicap accessibility, although not required. The development team includes a historic preservation consultant to inform rehabilitation decisions relative to preserving the historic fabric of the building. The scope includes:

- Increasing wall and roof insulation; foam insulation around new doors, windows
- Ventilation system to maintain air quality
- Automatic lighting
- New boilers (Staff and the NHP recommend at least 92% efficiency or higher)
- Individually metered electric
- Separate air exhaust systems for janitorial/maintenance storage areas
- Carpet replacement in select areas; refinishing hardwood floors
- Low, or no-VOC adhesives and paints
- Low flow toilets and plumbing fixtures
- New landscaped areas

The proposed scope of work and cost estimates will be reviewed by the Division’s Construction and Rehabilitation Manager and DHCD once they become available. The sponsor has engaged with a cost estimator that provided a preliminary construction cost of \$1,216,896, or \$225 sq/ft.

## **6. Project Costs**

When reviewing projects, Housing Staff considers whether the proposal meets the objectives of: addressing a stated public purpose; being within the statutory intent of the CDBG and HOME Programs; and providing decent affordable housing that is both initially feasible and viable throughout the affordability period. To attain these objectives, a proposal should not contain excessive costs, but investments into capital improvements should not be cut.

## 6.A Project Costs

The projected total development cost is \$3,089,877. Project sources breakdown as follows:

Capital Source	Total	Cost Per Unit	% of TDC
Newton-Controlled (HOME/CDBG)	\$1,363,626	\$136,363	44%
Dept. of Housing and Community Development	\$1,092,362	\$109,236	35%
Equity from State Historic Tax Credits	\$333,889	\$33,389	11%
Federal Home Loan Bank	\$300,000	\$30,000	10%
<b>All Project Sources</b>	<b>\$3,089,877</b>	<b>\$308,988</b>	<b>100%</b>

Alternate: Newton-Controlled (HOME/CDBG/CPA/no tax credit equity)	\$1,697,515	\$169,752	55%
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The table below shows the total development cost and Newton-controlled public subsidy per unit of comparable rental projects since 2003. Only two rental projects of similar scale have been completed in the past 10 years. These projects were existing residential buildings, not conversions to residential.

Project Address/ Sponsor/Year	Project Type and Scope	Affordable Units	Total Development Cost	Total Newton Subsidy/Unit <sup>5</sup>
2042-2044 Beacon Street MetroWest Collaborative Dev., 2013	Rental/supportive housing – Acquisition and Rehab	9	\$3,089,877	\$136,363
52-54 Wyman Street Newton Housing Authority, 2005	Rental/supportive housing – Acquisition and Rehab	10	\$3,567,995	\$101,800
Pelham House CLN/Newton Housing Authority, 2005	Rental/elderly housing – Acquisition and Rehab	10	\$2,841,460	\$174,859

## 6.B Development Budget

The development budget is reasonable and realistic, given the proposed reuse and major renovation of an existing building. The developer's fee is projected at 5% of total development costs, excluding capitalized reserves. The developer's fee and overhead when taken together is projected at \$271,622 or 10% of total development costs. DHCD requires a 10 percent cap on developer fees for Comprehensive Permit projects,<sup>6</sup> and the final project budget will be subject to cost certification upon project completion.

## 6.C Operating Budget

The project carries no permanent debt, so there is no debt service to pay after expenses. The budget includes case management and counseling salary and benefits as part of the supportive services' component. The costs and hours of the part-time counselor diminish incrementally over time under the premise that tenants will have gained greater self-sufficiency. Otherwise, the budget shows stable net operating income with no severe variations from year-to-year. When taking into account the

<sup>5</sup> Includes all Newton HOME, CDBG, CPA and/or inclusionary zoning fund grants and loans

<sup>6</sup> Payment of fees and profits limited to 10% of total development costs net of working capital or reserves and developer fees, overhead, profits, dividends and any other distributions to developers, including development consultants, etc.

developer fee and annual cash flows, the total return for the project is approximately \$321,186, or a still reasonable 12% of the total development budget.

## **7. Feasibility**

This project's overall feasibility is dependent on multiple public capital and operating sources. Both Housing Staff and the Newton Housing Partnership have evaluated the project's competitiveness for those funds and have recommended safeguards to protect the city's investment.

### *7.A Proposed Financial Structure and Timing*

CDBG will pay for property acquisition on August 12<sup>th</sup> and carry the property for approximately 11 months until closing on the rest of the capital sources and construction start, estimated to be July 1, 2014. This strategy is supported by Housing Staff and the Housing Partnership.

Housing for very low-income households, including chronically homeless individuals, is a top priority for DHCD. The proposal is also below the state's cost per unit limits and is within a "high opportunity area," which is another 2013 DHCD funding priority. These factors may work in favor of receiving state subsidies sooner than the average two-to three-year funding award cycle.

The project's operations are dependent on an annual subsidy authorized under the federal McKinney-Vento Homeless Assistance Act. This grant is specifically for funding renewals for existing permanent housing, transitional housing and support services as well as providing "bonus" funds for new permanent housing projects. Applicants apply for HUD funding through the CoC. Although HUD has not released the FFY2013 NOFA which includes criteria for project funding, HUD identified projects that create permanent supportive housing for chronically homeless individuals as high priority in 2012. The Sponsor plans to request \$117,535 of bonus money, which is historically below the amount HUD has made available to the CoC for permanent supportive housing:

<b>Year</b>	<b>Permanent Housing Bonus Funds Available</b>
2012	\$156,713
2011	\$193,132
2010	\$186,512
2009	\$186,436

The City has engaged an independent consultant to conduct formal underwriting, assess developer capacity and fiscal soundness and examine market conditions, as required by the HOME Program prior to committing HOME funds. Staff will work with the consultant to finalize the risk assessment once the other funding sources are committed and before disbursing any HOME funds. DHCD will also require a separate subsidy layering analysis prior to committing project-based vouchers.

### *7.B Financing Recommendations*

Providing CDBG as "first in" financing prior to zoning approval and other financing commitments is not setting a new precedent for the City. CDBG is often the initial financing that serves as an impetus to encourage other lenders to support a project. Local support is necessary for projects to secure state financing. Using CDBG funds for property acquisition will be contingent upon the Mayor's written support for the Sponsor's Site Eligibility Application to DHCD. Also, CDBG will be structured as a loan that will be due in full if the additional financing cannot be obtained by the proposed

construction start date (currently July 1, 2014). At a minimum, staff will condition the CDBG funds on the following:

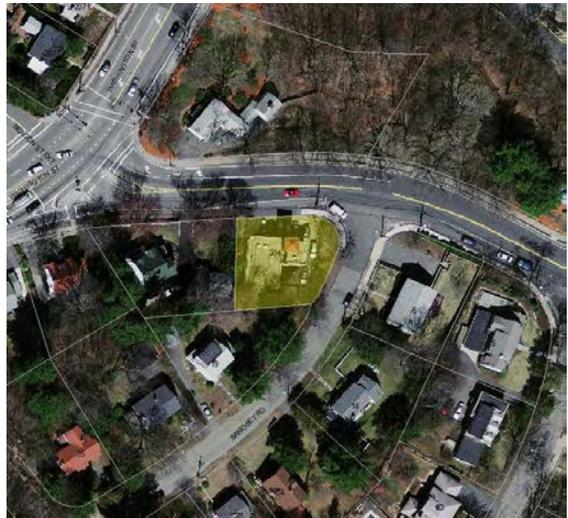
- Satisfactory as-is appraisal
- Evidence of satisfactory insurance coverage
- Completed environmental review
- Draft scope of work and cost estimates
- Reimbursement for carrying costs based on achievement of certain benchmarks (e.g. released upon zoning approval, CoC funding award)

The City has approximately \$456,448 available in HOME Program funds, although \$121,899 of those funds is reserved for a tenant-based rental assistance program. To meet this proposal's request, Housing Staff will borrow approximately \$73,306 of HOME funds from another member community of the WestMetro HOME Consortium. This amount will be repaid from future year HOME allocations. HOME Program funds would only be released upon at least the following conditions:

- Final commitment of other sources
- Final development and operating budgets
- Final scope of work and cost estimates
- An as-completed appraisal, if required
- Receipt of HOME funds from WestMetro HOME Consortium community
- Any reasonable conditions recommended from the HOME Risk Assessment

## **7. Target Population and Supportive Service Component**

The project will serve chronically homeless individuals. HUD has various definitions and levels of homelessness. The general criteria to be considered *chronically homeless* are 1) the individual has at least four episodes of homelessness<sup>7</sup> in the past three years and 2) the individual has a disability. The project *will not* follow the "low-threshold" housing model according to the Sponsor. The "Low-threshold" housing model, also known as the Housing First model, provides individuals with services to deal with issues such as alcohol or drug dependence or mental illness after becoming permanently housed rather than beforehand.



Paul Sullivan Housing has significant experience in providing case management and service provision, with over 800 units of permanent supportive housing in operation in the Greater Boston Area. This project will include an on-site resident house manager available to the residents through the night. Two counselors (one full-time, one part-time) will also be available during the day to provide case management including coordination of access to mental health services, social activities and crisis intervention. The part-time staff person's hours will decrease from 32 hours per week in years 1-3 to 8 hours per week in years 7-10.

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<sup>7</sup> An episode is defined as being homeless for 15 days or longer

The draft resident selection plan provides the grounds for applicant denial. These include having recent drug-related or violent incidents. Prospective residents will also be subject to public housing authority Criminal Offender Record Information (CORI) and Sex Offender Record Information (SORI) status criteria and grounds for denial.<sup>8</sup> Level 2 and Level 3 sex offenders would have their applications for residency denied.

Both staff and the NHP emphasized that the Sponsor identify the target population's characteristics according to the appropriate definitions, the resident screening policy and eligibility thresholds when engaging with the neighborhood and the community as a whole.



## **8. Architectural Accessibility**

The proposal was scoped for coverage of the accessibility *design and construction* requirements under Section 504 of the Rehabilitation Act of 1973 (Section 504), Title II and Title III of the Americans with Disabilities Act (ADA), the Fair Housing Act (FHA) and the MA Architectural Access Board (MAAB) regulations at 521 CMR.

Although not required, three of the units will meet the Group 2 definition of accessibility under state regulation. These will be ground floor units that will have greater floor space and require no structural modification to add accessible features to accommodate occupant needs. The common area in the basement will also include an accessible bath and kitchen. Either an accessible lift or an elevator, if required by the Massachusetts Architectural Access Board, will provide access between the basement common area and the first floor. There are no noticeable grade issues at the building's main egress. The Sponsor is proposing one accessible van space.

Staff will request a letter from the project architect affirming the design and construction standards the project will meet upon completion prior to closing on CDBG and HOME funds.

## **9. Fair Housing and Equal Opportunity**

The Sponsor has submitted a draft affirmative fair housing marketing plan. The plan will be reviewed and must be approved by the City and by DHCD prior to marketing. Pine Street Inn will act as the lottery agent for the project.

## **10. Priority Needs this Project Addresses**

As proposed, the project is designed to provide housing and support services to a very-low income population who meet funding priorities identified in the City's draft FY14 Annual Action Plan and

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<sup>8</sup> See draft management plan for the full criteria

McKinney-Vento Homeless Assistance Program funding criteria. For example, the one-year goals and actions for reducing and ending homelessness in the draft FY14 Annual Action Plan include:

*“Helping homeless persons (especially chronically homeless individuals and families, families with children, veterans and their families, and unaccompanied youth) make the transition to permanent housing and independent living, including shortening the period of time that individuals and families experience homelessness, facilitating access for homeless individuals and families to affordable housing units, and preventing individuals and families who were recently homeless from becoming homeless again.”*

In addition, the current Annual Action Plan identifies “deeper development subsidies in affordable housing projects so that very low-income renter households have a greater range of housing choices” as a priority for development. The project would also expand Newton’s socio-economic diversity by providing affordable, accessible units through affirmative marketing.

**Recommendation:**

Housing Staff recommends that the Planning and Development Board support the reallocation of \$955,771 CDBG and up to \$407,855 HOME Program funds for the development of 2042-2044 Beacon Street. Furthermore, Staff recommends that CDBG and HOME funds be disbursed after the appropriate conditions are met.

**Attachments:**

- Newton Housing Partnership recommendation letter
- Development Budget and Operating Pro forma
- Site and floor plans
- Full One-Stop Application. Due to its size, the full application is available to view online:

<http://www.newtonma.gov/civicax/filebank/documents/51838>