CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

October 21, 1991

To the Honorable, the City Council:

RE: Council Order #80, dated September 16, 1991, Re: Funding St. Paul's AME Affordable Housing Project

Pursuant to Council Order #80, I want to clarify that the Affordable Housing Trust is the City's primary vehicle for financing affordable housing projects. The Trust uses a variety of types of financing to assist sponsors in putting together feasible housing projects. These financing mechanisms range from short term construction financing to long term loans where both principal and interest may be deferred permanently.

The Trust's evaluation criteria (attached) include an emphasis on funding projects which provide maximum public benefits, specifically:

1. Projects where sponsors commit to long term affordability

2. Projects which benefit very low income households

3. Projects which produce either family sized units or units, rooms which include a social service component for individuals or households

Long term affordability is assured through deed restrictions, option agreements which allow the City to purchase the property at a limited equity price and loans with underlying interest rates which become due and payable if affordability standards are not met. These mechanisms ensure that the City's money will buy affordability for many generations of low income occupants.

In addition, the Trust evaluates applications/projects for overall financial feasibility and sponsor capacity. Cambridge, unlike other municipalities involved in loaning to affordable housing projects, has never had a project default on loans or experienced any other significant problems. This is due to careful initial underwriting of projects, reviews of cost and income assumptions, reviews of building plans and specifications, and construction monitoring to ensure high quality of construction. Sometimes this type of review will lead to changes in the developers' original pro forma or building plans; however, the end results are projects which are financially viable, well designed and constructed.

Another important Trust lending criteria is the ability of the project to leverage funds other than the Trust's. The project is reviewed to make sure that maximum outside resources, including bank financing state and federal subsidy sources have been utilized. Sponsors of projects have different levels of experience and may not be aware of all the potential financing sources. Trust staff can, at times, help sponsors access financing and subsidy sources, including rental subsidies, which they did not originally intend to seek. In general, the Trust wants to use the minimum amount of City funds in each project necessary for the success of each project and to ensure ongoing affordability. This approach allows the Trust to fund the maximum number of projects.

The process for applying for Trust funds is straightforward. A sponsor submits an application form to the Trust staff. The Trust staff reviews the application for financial feasibility and the other criteria enumerated above. The application is then reviewed by the Trust's Project Review Committee. The staff and/or the Trust Review Committee may request additional information and clarifications from the sponsor and, also, may make suggestions for restructuring the deal if necessary. The Project Review Committee then makes a recommendation to the Trust. The Trust reviews the public benefit related to the project, the terms of loans and overall feasibility of the development.

This process can take as little as one month or as much as six months depending on the overall readiness to proceed of each project.

The recent million dollar recapitalization of the Trust will enable it to continue financing affordable housing development. The review and underwriting process as well as analysis of public benefit is an integral part of the success of Trust and City funded projects.

Yours truly,

Robert W. Healy
City Manager

RWH:SS:nb

CONSENT AGENDA S-1138

4.

Transmitting communication from Robert W. Healy, City Manager, relative to Council Order No. 80, dated 9/16/91 regarding funding St. Paul's AME Affordable Housing Project.

In City Council,

October 21, 1991

Placed on file