

MEMORANDUM

TO: Town of Arlington Select Board and Town Manager Adam Chapdelaine

FROM: Jeff Katz, Interim Executive Director, Housing Corporation of Arlington (HCA)

CC: Wendy Cohen & Michael Rodriguez, Development Consultant, New Seasons Development LLC
Jennifer Raitt, Director of Planning & Community Development

DATE: January 20, 2022

RE: Gap Funding for Downing Square Broadway Initiative (DSBI) in Arlington

Introduction:

Housing Corporation of Arlington (HCA) is pleased to announce the completion and grand opening of the Downing Square Broadway Initiative (DSBI), forty-eight (48) units of much-needed affordable housing for the Arlington community. In addition, to the sixteen (16) units targeted to Extremely Low-Income (ELI) households through vouchers or 30% AMI units, DSBI provides a total of eight (8) accessible units and five (5) units are reserved for references from the Somerville Homeless Coalition.

As the DSBI development has completed construction and initiated lease-up, the sponsor, HCA, is facing a projected \$1,791,000 gap and would like to discuss the possibility of accessing ARPA Funding through the Town of Arlington. Although not successful in our CPA request, we believe the current financial gap can be bridged with a combination of additional DHCD resources (\$319,000) and ARPA funding through the Town of Arlington (\$319,000).

HCA has engaged New Seasons Development LLC (NSD) as consultants to assist in successfully completing this development and assist in identifying opportunities to reduce the current financing gap. For your reference, we have summarized the delays and cost overruns driving the gap in financing as further described in Exhibit A attached hereto. HCA is confident that a combination of these strategies will allow us to overcome this current gap and convert to our permanent mortgage upon the completion of lease-up and stabilization.

HCA very much appreciates the investment that the Town of Arlington has made to bring this development to reality and understands that these limited resources must be used in the most efficient manner possible. HCA and NSD have worked diligently over the past several months to identify a wide variety of funding sources to fill this gap, as further explained in Exhibit A, and would appreciate any additional assistance from the Town of Arlington as we navigate these challenging times.



Exhibit A – DSBI Financial Gap Strategy

Construction and Lease-up Progress Update:

Construction completion was delayed from May 2021 to December 2021 with lease-up anticipated to be complete by April 2022. This delay was caused by COVID and the ability to make the permanent power connection. In addition, a radon mitigation system will need to be installed at one building (Building B at 19R Park Ave) prior to occupying the units in that building. Unfortunately, given this delay in lease-up, we anticipate a tax credit adjuster from the investor in the amount of **\$300,000**.

Construction Cost Overrun:

Construction encountered unanticipated environmental remediation in excess of \$720,000.

The original construction contract amount was \$15,997,150, and the budget for the environmental remediation costs was \$473,916. The construction contingency was \$867,163, which is 5.26% of the total of the construction and remediation budgets. The actual cost for environmental remediation was \$720,915.25, leaving \$246,999.25 to be paid out of contingency. This left a construction budget of \$15,997,150 plus contingency of \$620,163.75, which is 3.88% of the construction budget going in. Actual construction costs are expected to be approximately \$15,997,150 plus \$793,229, leaving a gap of **\$173,065**.

Total Construction Budget	\$ 17,338,229
Site Remediation	\$ 720,915
Construction Contingency	\$ 620,164
Approved CO's	\$ 665,538
Approved, Not CO	\$ 6,613
Likely Change Orders	\$ 121,077
BALANCE OF CONTINGENCY	\$ (173,065)

Another \$413,000 of additional construction costs were borrowed from another HCA owned property to pay construction costs and need to be repaid. A portion of the \$600,000 additional mortgage contemplated below will cover this cost.

Soft Cost Increases:

DSBI has already experienced nearly **\$419,500** to date in soft cost overruns, and given delays previously explained, we are estimating an additional **\$485,434** in soft cost overruns through the anticipated stabilization date, including increased operating reserves projected to be needed to support added debt. These soft cost over-runs include Architecture & Engineering, environmental engineering, construction loan interest given un-anticipated delays and environmental remediation.

Total Gap

Construction: \$586,065

Soft Costs: \$904,934

Gap (uses): \$1,491,000

Adjuster: \$300,000

Total Gap: \$1,791,000

In addition to this request of \$319,000 in ARPA funding, HCA and NSD have confirmed several other sources that have allowed us to bridge this financial shortfall.

- Additional North Suburban Consortium HOME funds (\$100,000) - Approved
- Additional Perm Loan Proceeds (\$600,000) - Approved
- Additional DHCD funds (\$319,000) –Approved by E-mail, DHCD Source TBD
- Additional AAHG resources (\$300,000) – Approved

Increased deferred developer fee: \$153,000

Increased sources: \$1,791,000