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Town of Acton
Towne Building Selection Committee
c/o ACHC
P.O. Box 681
Acton, MA 01720

September 3, 2003

Peter Daly
Shelly Dein
Homeowners Rehab Inc.
280 Franklin St.
Cambridge, MA 02139

Dear Peter and Shelly,

Thank you for meeting with the Towne Building Selection Committee on August 28. It is very exciting for us to finally move forward with our plan to reuse the vacant school building for affordable housing. The members of the committee all learned a lot from this session. As we mentioned, we are following up with a set of questions to allow you to give us additional background and thoughts on your proposal for the reuse.

We would like to receive your answers by Friday, September 12 via email if possible to allow us to distribute it quickly to the members. You may reply to my email below or to all of the contact people listed if you choose. You may also contact any of us should you have questions in the meantime. If FAX is a better method, send your answers to the Town Hall **FAX at 978-264-9630 to the attention of Dean Charter** but please also email me at that time so that I can arrange to pick it up for distribution.

Contact people:

Nancy Tavernier	978-263-9611	mavern@comcast.net
Dean Charter	978-264-9629	dcharter@town.acton.ma.us
Bob Whittlesey	978-897-0955	rbwhittlesey@earthlink.net
Betty McManus	978-263-4776	ahabetty@attglobal.net

We anticipate making a recommendation to the Acton Board of Selectmen at their next meeting on September 22 for the awarding of the contract on the reuse of Towne Building. We hope this timing will not present a problem.

Thank you for your interest in Acton's first municipal affordable housing development.

The Towne Building Selection Committee wishes to reaffirm the following terms and conditions that were in the RFP or as discussed at the interview on August 28, 2003.

a. In accordance with agreements made with the School Committee and the Town, the Land Parcel Boundary on the east side of the building is fixed at 70 feet from the Building.
b. Even though the Town has adopted the CPA program, no CPA funds can be anticipated initially for use in connection with the redevelopment of the Towne Building
c. The 50 year term of the Lease for the building is set in the Home Rule Petition and cannot be adjusted.

QUESTIONS:

1. Pursuant to discussions at the interview on August 28, are there any changes in the Lease that would be mandatory conditions for HRI undertaking the development of the Towne Building? A marked up copy of the lease would be helpful.

2. How would HRI replace Local CPA funding in the proposal?

3. The Committee's understanding is that CDF II funding in Projects with more the six units would require prevailing wages. How would such a requirement affect your costs, proposed funding and rents? A One-Stop Pro forma would be helpful.

4. What funding strategies would HRI see as helpful in meeting the requirement that the building would be free of liens at the end of the 50-year term?

5. If Low Income Housing Tax Credits are involved, would HRI structure the limited partnership to allow the general partner to buy out the limited partners immediately after the limited investor's compliance period?

6. Did HRI do a market analysis to come up with the proposed rents?

7. If the open private yards were omitted, how would HRI utilize that space?

8. Does HRI see any way in which some community space can be provided?

9. What terms and conditions would apply to the Developer's Fee loan?

We would welcome any further comments that you wish to make that would clarify or augment your original proposal.

Thank you.

Sincerely,
Nancy E. Tavernier, Chair, ACHC

HOMEOWNER'S REHAB, INC.
280 Franklin Street
Cambridge, MA 02139

September 12, 2003

Town of Acton
Towne Building Selection Committee
c/o ACHC
P.O. Box 681
Acton, MA 01720

Dear Sirs and Madams:

Thank you for your continued interest in our proposal. Both during the August 28 interview and subsequently, we've learned more about the property, and we continue to be interested in redeveloping it as affordable housing. With this letter we will address the questions you posed, and there is additional material that we are sending by fax.

We've revised our earlier financial models based on this new information. We're submitting a revision of our previous Scenario #1. Please note the following changes:

- On the development budget, we've increased the construction budget for additional costs associated with historically-approved rehab standards, and prevailing wages. We've added some soft costs for a Historic Consultant and for the processing fee to the National Park Service to pursue Historic Tax Credits. We've slightly raised the developer's overhead and fee, keeping to the same percentage of total development costs as before.
- On the operating budget, we increased the water and sewer charges based on the information learned at the interview, but reduced the amount slightly due to a lower bedroom count.
- On the sources of financing, the higher operating costs reduced the amount of the first mortgage we could carry. On the assumption that we'll be able to secure Historic Tax Credits, we increased the amount of tax credit equity raised, and eliminated the use of CPA funds, per the Town's request. Other financing sources continue to be DHCD HSF or HOME funds (unchanged), Mass. Affordable Housing Trust funds (slightly higher) or CDBG/CDF II, the Developer's Fee loan (slightly higher), and an energy conservation rebate (unchanged).

1. Pursuant to discussions at the interview on August 28, are there any changes in the Lease that would be mandatory conditions for HRI undertaking the development of the Towne Building? A marked up copy of the lease would be helpful.

We have reviewed the lease again, and via fax are sending a marked up copy with our comments. There are some items with cost implications that need clarification from the Town, so that we know that our budgets are appropriate. They are noted in the mark-up. Please note that the lease would need to be approved by our lenders and our attorney prior to execution.

2. How would HRI replace Local CPA funding in the proposal?

We've been investigating the feasibility of seeking Historic Rehabilitation Tax Credits. We are pleased to learn that the Towne School has been determined eligible for listing in the National Register of Historic Places by the Mass. Historical Commission, so we expect that the building will qualify as a "certified historic structure". The rehab would need to comply with the Secretary of the Interior's Rehab Standards, and although it is premature to know exactly what that scope of work will entail, we've added an allowance to the construction budget. We have revised our sources and uses accordingly, and would hope to generate enough funds to eliminate the need for $300,000 in CPA funds shown in our original budgets.

Although our revised budget shows no local funding, it has been our experience, that DHCD scores projects more favorably when there is a match of funds from the local municipality.

3. The Committee's understanding is that CDF II funding in Projects with more the six units would require prevailing wages. How would such a requirement affect your costs, proposed funding and rents? A One-Stop Pro forma would be helpful.

Via fax, we are sending a One-Stop Application: Sections 3, 4, 5, and the Project Summary Information Section. This One-Stop was modeled using LIHTC and Historic Tax Credits (a variation of Scenario #1 from our original submittal.) The construction costs are $131/sf, before the contingency. We arrived at that cost based on conversations with contractors about recent costs for converting a historic school to housing, using prevailing wages. The need to use prevailing wages is determined by the funding sources we use. If we don't need to pay prevailing wages, the costs may be lower. We have not adjusted the rents from our earlier submittals.

4. What funding strategies would HRI see as helpful in meeting the requirement that the building would be free of liens at the end of the 50-year term?

With this requirement, we would need to make sure that none of our financing requires balloon payments at the end of their terms. The requirement that the building be free of liens at lease termination may be problematic for two reasons that we can think of. Firstly, as responsible landlords, we will continue to make capital improvements to the property so that it is well maintained. Some can be made from replacement reserves, but we would hope not to eliminate the option of financing some improvements in the later years if warranted, nor need to neglect the physical needs of the building. Secondly, we don't know yet what DHCD will require as a condition of their funding. Public lenders frequently provide deferred payment loans that are renewable only if the affordability is extended. Once the affordability is no longer guaranteed, the note is due and payable.

5. If Low Income Housing Tax Credits are involved, would HRI structure the limited partnership to allow the general partner to buy out the limited partners immediately after the limited investor's compliance period?

Yes. Our partnership agreements typically allow the general partner to buy out the limiteds at the end of the investors' compliance period.

6. Did HRI do a market analysis to come up with the proposed rents?

We did not undertake a formal market analysis, but instead for several weeks in July we tracked rental information through newspaper ads (Boston Globe and Acton Beacon) and internet listings. We also called some listing agents to determine the comparability of some listings before determining the market rents. Coincidentally, the market rents are set at levels affordable to households below 80% median income. We set the tax credit rents at 90% of the allowable amount, so that we had a marketing window. The rental assisted apartment rents were set at FMR.

7. If the open private yards were omitted, how would HRI utilize that space?

If the private yards were eliminated, we could create some common public outdoor space, expand the parking, or do a combination of both. Via fax we are sending sketch A that shows potential common outdoor spaces. The outdoor spaces would be designed for low-intensity uses, and might include benches for some seating, as well as some play space. We imagine creating a landscaped buffer and walkway to give some privacy to the apartments nearby. The outdoor space near the parking lot could be developed as additional parking for 4-5 more vehicles, alternatively.

8. Does HRI see any way in which some community space can be provided?

As mentioned above, we can create some outdoor common public space in lieu of open private yards. In Sketch B, we've expanded one of the closets off the central first floor hallway to create a small (approximately 9'x10') meeting room where a few people could meet (by slightly reducing the size of the 2-BR accessible apartment.) To create a larger meeting room for a tenants' meeting, for example, would require a minimum of 500 sf, so we would need to eliminate one 1-BR apartment. This would put pressure on the project's financial feasibility. With so many public buildings in close proximity, we wonder if it isn't more prudent to rent a room for the occasional larger meeting.

9. What terms and conditions would apply to the Developer's Fee loan?

We would expect the loan to be repaid through available cash flow. The lenders and equity investors on the project typically determine the size, terms and conditions of the developer's loan.

Thank you again for consideration of our proposal.

Sincerely,

Peter Daly, Executive Director
Shelly Dein, Project Manager

Via Fax: Marked-up Lease
One-Stop Application
Sketches A and B

HOMEOWNER'S REHAB, INC.
280 Franklin Street
Cambridge, MA 02139

September 17, 2003

Town of Acton
Towne Building Selection Committee
c/o ACHC
P.O. Box 681
Acton, MA 01720

Via Fax: 978-264-9630

Dear Sirs and Madams:

Shelly spoke with Bob Whittlesey today, inquiring about our calculation of eligible basis used to forecast the amount of tax credits, and tax credit equity we can expect to generate. This is to respond to Bob's question about whether all sources of financing would be eligible, including the $750,000 in HOME funds and the $457,000 in Trust funds. (Please note that we've also listed alternate sources for these funds; specifically HSF funds in lieu of HOME, and CDBG/CDF II funds for Trust.)

Shelly spoke today with Jim Luckett, who is our syndication consultant, Michelle Dick from DHCD, and Andrew Winter from MassHousing: the Affordable Housing Trust Fund. She was not able to reach our accountant at Ziner on short notice.

Jim and Michelle confirmed that if the HOME funds are structured as a loan, they qualify for inclusion in the basis. The Trust funds are not as clear cut – but depend on the original source of financing for the Trust. Andrew confirmed that the Trust has been funded from general revenue and bond revenue, at different times. General revenue funds can be included in basis.

In a worse case scenario, the Trust may be financed using bond revenue, which would make it ineligible for inclusion in the basis. (Andrew stated there was still some unexpended Trust funds that were originally from general revenue, and could be used for some projects which would eliminate this problem.) We believe we have two other ways of addressing this issue, should it arise:

- Amount of eligible basis: DHCD caps the amount of eligible basis at $155,000 per tax credit unit for new production, regardless of what the project costs are. Our projections are based on DHCD's cap (which we carried at $150,000/unit.) The project generates more than $1,000,000 extra basis than DHCD's cap – so if some needs to be disqualified, our projections should still be reasonable.
- We have the possibility of using other sources of financing (CDBG/CDF II) instead of Trust funds, which if structured as a loan, is a qualified source of financing, and will not cause the basis to be lowered.

We hope this addresses the concerns you had. Again, thank you for your consideration of our proposal.

Sincerely,

Peter Daly, Executive Director
Shelly Dein, Project Manager