

**Affordable Housing Trust Fund Board**  
**Approved Meeting Minutes**  
**December 3, 2019**

A meeting of the Salem Affordable Housing Trust Fund Board was held on Tuesday, December 3, 2019 in the Board Room at the Community Life Center, 401 Bridge Street, Salem, Massachusetts at 6:00 p.m.

**Members present:** Mayor Kim Driscoll, City Councillor Christine Madore, Rebecca Curran, Ben Anderson, Mickey Northcutt, John Boris.

Mayor Kim Driscoll called the meeting to order at 6:15 p.m.

**UNFINISHED BUSINESS**

A. Inclusionary Zoning: Adaptive Reuse Discussion

Amanda Chiancola notes that David Pabich is a guest in attendance to share his experiences working on adaptive reuse projects in the B5.

Mr. Pabich outlines the process to use historic tax credits, which preserve what you would expect on the exterior, such as interior windows trim to maintain the historic fabric, but it also requires preservation of internal elements such as a class room cannot break it into two units because when the project is done you need to know/appreciate it was formerly a classroom, the widths of hallways are another item that cannot be changed. The developer can only submit three times a year to Mass Historic Commission whom typically review and reject it then invite the developer back to resubmit then awards are metered out. Mr. Pabich explains that his team applied for federal historic tax credits for the redevelopment of the rectory and school building at Saint Josephs. During the National Park Service review the development team was informed they would need to eliminate two units in the school to preserve a stage at the top floor. In light of that Mr. Pabich and his team took a comprehensive look at the project and came to the conclusion that they would need to drop the federal historic tax credits and add a few extra units to make the project work, but it would only work with three affordable units if the project also receives Housing Development Incentive Program (HDIP) credits.

Mr. Pabich notes the renovations are expensive absent of HDIP they would not be able to do the project.

Ms. Chiancola discusses the Inclusionary Zoning proposal noting that the incentives proposed in the draft ordinance include a 25% density bonus, waivers from the setbacks and a parking reduction. Ms. Chiancola explains that the discussion item regarding options for adaptive reuse projects in the B5 is on the agenda because these incentives do not work for those projects. In the B5 zoning district new residential units within an existing building do not have a minimum lot area per dwelling unit. Also, if an existing building is being used a waiver from setbacks would not be necessary and parking is already lower at a ratio of one space per unit, which can be met through an offsite facility within 1000 feet of the development.

Mr. Pabich says there is an inefficiency built into the building so if historic renovation and constrained by tax credit guidelines difficult to divide it up (heating, roof etc.)

Ms. Chiancola drafted an option that would allow for the affordable units to be increased from 60% AMI to 80% AMI with specific criteria. These are options for the AHTF Board to discuss and consider:

<b>Suggested Criteria for 80% AMI Units</b>	<b>Process to allow 80% AMI Units</b>
<ol style="list-style-type: none"><li>1. The project must be in the B5 zoning district.</li><li>2. The applicant must demonstrate that the project would not be financially feasible with 60% AMI units. Submittal requirements would include a complete proforma for the development.</li><li>3. The incentives of Section 5.4.4 are not permitted if the units are at 80% AMI.</li></ol>	<p>Special Permit:</p> <p>In the event that an adaptive reuse project would not be feasible with the affordable units at 60% AMI, the units may be affordable at 80% AMI by a Special Permit from the Planning Board if the project meets the criteria shown on the left.</p>

Mickey Northcutt says that this proposal guts the ordinance and the concept that 80% of the area median income (AMI) does not serve Salem, noting that units priced at 80% AMI are more expensive than market rate in the Point Neighborhood. Ben Anderson asks what the options of area median income are, and comments that private development at 60% of AMI does not work in the B5. Mr. Northcutt says it is not financially in feasible to redevelop buildings at 60% AMI, he provides the NSCDC as an example- who are also developers.

Ms. Chiancola notes these are options for brainstorming and discussion. Other cities she has researched provide flexibility through offsite units or payment in lieu. However, those options are not provided here because the community and the AHTF Board have made it clear that those options would not be supported.

Mr. Pabich says that the market rate developers would need to evaluate their options and may take their projects/money elsewhere. Mr. Northcutt explains that the NSCDC was able to win the award for the request for proposal (RFP) for the school buildings at St. James and St. Marys because the archdiocese required that the buildings are leased rather than sold, market rate developers do not want that deal. If the buildings were going to be sold then the NSCDC would not be able to compete with market rate developers that can come in with a higher purchase price. Mr. Northcutt does not agree that historic buildings would be unfeasible with the affordable units at 60% AMI. If there are buildings that are too tough for market rate developers to build at 60% then other organizations, such as nonprofits, could redevelop them.

Mayor Driscoll expresses concern that requiring 60% of the AMI may preclude private redevelopment of older buildings in the B5.

Mr. Northcutt says this proposal is at odd with what the Trust have been trying to do, for over a year there have been discussions of the importance of 60% AMI, this discussion seems like it is out of left field he wouldn't vote for this.

Rebecca Curran says the Board should consider whether there are other incentives that could be offered. Ms. Curran suggests a reduced lot coverage, the Mayor responds that residential uses within existing buildings in the B5 are already allowed 100% lot coverage.

Councillor Madore suggests adding in criteria or an option to provide a façade easement and/or eliminate the parking requirement.

Mayor Driscoll responds to Mr. Northcutt that the goal is to increase affordable housing not prevent market rate development, noting that we need new growth. There are hardships to historic adaptive reuse properties and we cannot rely on nonprofits alone noting there also a timing issue given the longevity of low-income housing tax credits

Mr. Northcutt says that units at 80% AMI are not fulfilling the need in Salem. Mayor Driscoll responds that while our need at 60% AMI is greater there is still a need at 80% AMI too, noting there is a waiting list. The flexibility we are trying to create is to ensure market rate development is not precluded in B5.

Mayor Driscoll suggests that the AHTF Board be the approving board for the proforma. As part of that review the applicant would need to demonstrate to the AHTF Board that they have exhausted all options, e.g. Community Preservation Act (CPA) funding and Housing Development Incentive Program (HDIP). Mr. Northcutt explains that there is a 40B process for proforma review which involves a third-party accountant peer review (paid for by the developer, hired by the AHTF Board). Rebecca Curran suggests that the 40B process be used as a model.

Ms. Curran asks how many affordable units are in the Saint Joseph's renovation, Mr. Pabich replies 3. Councilor Madore asks Mr. Pabich if CPA was considered- it was not. Mr. Northcutt notes that it is unlikely that the Community Preservation Committee would approve a subsidy for only three units.

Mr. Northcutt says if we allow the special permit it is status quo. Mr. Daniel says it is not, it is a relief valve for projects that otherwise would not be able to meet the requirement.

Mayor Driscoll says that the status quo will be 10% of new units at 60% AMI, and this special permit would offer flexibility for a small portion of historic renovation projects in the B5 in the event that the developer can prove that it is not feasible to develop a project with affordable units at 60% AMI.

Ms. Curran suggests creating flexibility that would allow one less affordable unit. Councilor Madore suggests allowing tiered affordability levels but only with a letter of support from the AHTF Board that would approve the mix and if the discussed proforma is peer reviewed.

Mr. Anderson suggests that if a percentage of units are allowed to be provided at affordability levels above 60% AMI, the majority of the units should be at the targeted 60% AMI.

Mayor Driscoll asks Mr. Northcutt what we thinks about requiring the units be at 60% AMI but allowing less a reduction in the total percentage of require units (10%). Mr. Northcutt states he does not agree with any of the choices. He is firm in that it should be 10% of the units at 60% of the AMI.

Mr. Anderson suggests that there be consistency in the total required (10%) of the units.

Mayor Driscoll reiterates that this flexibility would only be for historic, existing buildings in the B5. Mr. Pabich suggests offering flexibility in the parking, perhaps requiring .75 spaces for each unit. Ms. Curran asks suggests increasing the allowed lot coverage, discussion among the AHTF ensues noting that the lot coverage for existing buildings is already at 100% in the B5, it is 50% new construction but this flexibility is intended for existing buildings not new construction.

Ms. Chiancola will put draft language for the next meeting that include the recommendations from this discussion.

#### B. Inclusionary Zoning: Affordable Units in an Ownership Project

Per the request of the Board Ms. Chiancola has researched the IRR for ownership units. In short, it depends on how the financing is structured. If the developer is receiving equity in the form of investors, the investors need a 16-21% rate of return overtime. IRR is not a typical metric for ownership projects. Regardless of the metric, there is a substantial tax difference between rental and for sale and a developer must value the project after taxes to compare. Ms. Chiancola points to a chart in the staff memo that illustrates the max sale price for 60% and 80% units. The gap equals the average sale minus the maximum sale price. The average sales prices are based on sales of condos and single-family homes in Salem from October 2018-October 2019. The North Shore Association of Realtors provided said data. Mr. Anderson points out that the columns are reversed (the 60% header and 80% headers are wrong).

Councillor Madore says that the gap between max sale prices for a household at 80% AMI and market rate unit to be large enough for the household to want the affordable unit. Thus, there probably is a market for 80% AMI units and these units would still create some benefit. Councillor Madore considers the 60% gap for developer is too great to cover. Mr. Northcutt disagrees. The developer is obtaining a 25% density bonus- they should be able to recover that cost through the additional units. Discussion ensues regarding what to do if a household does not qualify for a 60% unit, currently the draft ordinance allows the City or its designee to the first right of refusal. However, the City and the AHTF Board will probably not have funds to purchase the property. Ms. Curran suggests creating an option that would allow the units be sold at market rate if the developer cannot find an eligible household within a certain timeframe. Ms. Curran explains that 40B has this provision so we use 40B as a model for our

language, e.g. the timeframe the developer has to market the units before they can increase the affordability level. Councillor Madore suggests that the language require the developer to try to sell the units at 60% AMI and if they cannot then the developer would need to obtain approval from the AHTF Board to sell the units at 80% AMI. Ms. Curran says the AHTF Board could review the marketing to ensure they developer made efforts to sell the unit at 60% AMI. Ms. Chiancola noted that the affordable units require and Affirmative Fair Housing Marketing Plan that is prepared by the developer but must be approved by the City and the Department of Housing and Community Development so we have the opportunity ensure the units are well marketed.

Mayor Driscoll suggests two insertion points, first allow for the proforma review option, similar to the special permit for the historic renovation properties in the B5 and allow for the units to be “upped” to 80% AMI in the event they are not sold in a certain timeframe. Mayor Driscoll suggests that staff research case studies on for how Inclusionary Zoning has worked for condo and single-family homes in other communities.

Ms. Chiancola will research case studies and draft language as discussed.

C. 56 Memorial Drive next steps

Ms. Chiancola explains that it has come to staff’s attention that the City Council adopted an order in 1987 that turned the property at Memorial drive to parkland. It was never recorded, which is why it did not come up during the title review. There are a number of steps necessary to use that property including, finding a replacement property to dedicate as parkland that is equal in size, value and habitat area; obtaining multiple city board approvals, City Council approval and legislative approval. On another note, the City Engineer attended the South Essex Sewage District (SESD) Board meeting on November 20th. At that meeting David Knowlton, the City Engineer informed SESD that the City is interested in building affordable housing at this site and is interested transferring SESD land across the street from the sewage treatment plant to the City for the purpose of affordable housing. The SESD Board appeared to be supportive, a subsequent meeting between staff and the SESD Board will occur in the next couple of months.

Mayor Driscoll explains this will shift our priorities, we can focus on the Salem High School property and look into the opportunity to build teacher housing.

## **NEW BUSINESS**

A. Next Steps for Accessory Dwelling Unit Ordinance

Discussion of supplementing an ADU ordinance with affordability incentives, including a loan package and tax exemption will occur at the next meeting.

## **APPROVAL OF THE MINUTES**

*Mickey Northcutt makes a motion to approve the October 1, 2019 Affordable Housing Trust Fund Board meeting minutes, seconded by John Boris and the motion carries unanimously.*

## **ADJOURNMENT**

*Motion to adjourn by Mickey Northcutt, seconded by John Boris—passes unanimously.*

Meeting adjourned at 7:45 p.m.

Approved by the Affordable Housing Trust Fund Board on 1/7/2020

Know your rights under the Open Meeting Law M.G.L. c. 30A § 18-25 and City Ordinance § 2-2028 through § 2-2033.