

Harbor Hill (Article 1) Fact Sheet – June 24th Special Town Meeting

Harbor Hill Development – How did we get here?

In February 2017, Town Meeting authorized \$10,700,000 for the acquisition and renovation of Harbor Hill. At that time, the Trust did not know the purchase price as the property was being auctioned. They clearly did not know a contract price for the renovation because they had not had full access to the buildings, nor an architect onboard to provide those estimates. The Year Round Market Rate Rental Housing Trust, which had just been created two months prior, had a balance of \$1,500,000 that it had to contribute to the project as a contingency to cover debt service payments and expenses.

The timeframe to close on the property took much longer than originally expected due to the legal challenge from the group of owners. An additional delay in closing on the property of 14 months, plus multiple bid rounds for property manager and construction have all delayed and driven up the cost of acquisition and rehabilitation.

What has the Trust spent to date on the project?

Since February 2017, the Trust has expended the following funds to date:

Acquisition	\$ 8,102,000	
Legal Costs	\$ 206,000	
Architect.....	\$ 280,000	
Bond Fees and Debt Interest.....	\$ 302,000	
Renovation (Bldg. 5).....	\$ 70,000	
Rental Operations.....	\$ 87,000	
June 2019 Debt Service.....	\$399,000	
Total expenses to date.....		\$9,446,000

Remaining Balance available to the Trust before encumbrances: \$2,866,000

What is left to do?

To date only one building is occupied, the remaining three buildings need significant rehabilitation that prevents them from obtaining a certificate of occupancy. The property had sat vacant for several years by the time the Trust took possession. Failure to enter into the construction contract means that 22 units could not be rented or occupied, the Trust cannot generate rental revenue, and that the Trust will not be able to meet future debt service payments.

The Trust went out to bid on the construction contract last fall and received one bid that was far too costly, so the bid was rejected and the Trust went back out to rebid over the winter. The second round of bids were opened in March and reviewed for their responsiveness and scope by the LDA Architects, which presented their findings to the Town Manager and the Trust. On March 13th, the Trust voted to award a construction contract to NEI in the amount of \$2,674,286.

However, Mass Public Procurement Laws don't allow an organization to deficit spend, meaning we can't enter into a contract if we cannot demonstrate that we have the funds to cover the full cost of the contract upfront! Although the Trust has a sufficient cash balance to cover the contract today, they have committed some of the funds for ongoing expenses and two more debt service payments occurring in FY2020. Therefore, they will not have sufficient funding to last the entire fiscal year, which means they will go into deficit and the Town (and taxpayers) will be responsible for making the debt service payment.

Why is the Town subsidy required?

It was clear from the beginning of this project back in February 2017 that the project would have a deficit. It was originally expected to be approximately \$150,000 a year and the Trust had suggested that they could cover the deficit for up to 5 years with its \$1,500,000. None of the assumptions that were made in 2017 have proven to be the case, particularly because of the legal delays. At the time the Trust proposed the following options for meeting future deficits, none of which the town has followed up on because the revenue sources have not yet been identified in amount or available for allocation: Marijuana tax or Short Term Rental Tax (both of which are reasonably expected within the next year) or reallocating the Land Bank Assessment (not an option until FY2021). In addition, the Trust risk or exit strategy would be to sell off units. The Trust is moving forward with the process to sell off units which could ultimately reduce the need to access supplemental funds, but because of the timing, the town meeting article would still be required to secure those funds.

How much of a subsidy is required at this time? \$492,000

As proposed by the Select Board, the \$492,000 is not a blank check, the requested subsidy would act similar to a reserve account. This means any money appropriated by town meeting would be held in the General Fund and only distributed to the trust if and as needed to prevent a deficit before the end of the fiscal year. The \$492,000 will keep the Trust whole during the construction contract and will cover all operating expenses and debt service payments through June 2020. If the Trust sells off a unit prior to June 2020 and the revenue offsets the deficit, then the funds would not be needed. If the contract is permitted to move forward, it is anticipated that the remaining units could be made available for rent by the end of the year, opening up the potential stream of rental income, if rental revenue is sufficient then the funds would not be needed.

What happens if Town Meeting Says NO?

Until the project is able to be finished, it is not viable and the Trust would be required to sell off units without certificate of occupancies. Therefore, the units could not be sold at market rates and the Town could risk not recouping its initial investment, let alone what has been spent to date. Without this reserve account, the whole project is at risk and the Town, in addition to the Trust, has legal and financial liability.