



Town of Nantucket Finance Committee

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Committee Members: David Worth(Chair), Stephen Maury(Vice-chair), Clifford Williams, Joseph T. Grause Jr., Peter McEachern, Henry Sanford, Joanna Roche, Denice Kronau, Peter Schaeffer

MINUTES

Thursday, February 21, 2019

4 Fairgrounds Road, Training Room – 4:00 p.m.

Called to order at 4:00 p.m.

Staff in attendance: Libby Gibson, Town Manager; Brian Turbitt, Director of Finance; Alexandria Penta, Financial Analyst; Terry Norton, Town Minutes Taker
Attending Members: Worth, Maury, Williams, Grause, McEachern, Roche, Kronau, Schaeffer
Absent Members: Sanford
Late Arrivals: Roche, 4:05 p.m.
Early Departures: None
Documents used: 2019 Annual Town Meeting Warrant Articles 71, 18, & 37.

I. ANNOUNCEMENTS

II. APPROVAL OF PRIOR MEETING MINUTES

1. None

III. PUBLIC COMMENT

1. Ian Golding, Sponsor Article 71 (Bylaw Amendment: Bicycles) – Asked that the motion be reconsidered.
Worth – Explained how FinCom came to the decision to take no action. With an \$85,000 price tag FinCom can't see a way to support the article; FinCom is not against the idea.
Gibson – The funding doesn't have to be available immediately; explained the FinCom comment. If there are areas that can be funded within the current budget, that approach would be preferable.
Rick Atherton – If FinCom thinks this is a good program, FinCom should recommend it; passing over this sets a negative tone.

IV. REVIEW OF ARTICLE 18 (PROPOSED ACQUISITION OF NANTUCKET INN PROPERTY 1-3 MILLER LANE)

Discussion **Worth** – Our main business is to hear about this article.
Tucker Holland, Housing Specialist – This opportunity came to the Town in recent weeks with the thought it might lend itself in part to help the Town address the housing crisis. Kevin McGuire will review how to think about this as a housing opportunity. This isn't the least expensive way to address housing but this property has other ways to lend itself to the community. Also, here are Scott Thomas the Nantucket Inn General Manager, Brian Sullivan for the owner, Brooke Mohr for AHTF.
McGuire – He looked at this as a housing opportunity for the Island; he's trying to boil this down to the cost to develop housing versus the cost of not developing housing. We are talking about 100 300-square-foot rooms to be combined into 2-bedroom units. This would be a small-unit development. The property is split into three clusters: reception building, rental units, and rear lot. Described his analyses broken up in four scenarios. Asset analysis: the acquisition price is \$27M; front parcel value is \$12M at \$500 per square foot; middle parcel renovation of rooms cost approximately \$150,000 to become year-round residential; currently all management takes place in the front parcel. Option 1: 50 SHI (subsidized-housing inventory) units, density is 32 dwelling

units per acre; the total development cost is \$572,500. Option 2: 39 SHI units and maintaining Transportation Security Administration (TSA) rooms, looking at \$365,000 per unit. Option 3: workforce has no state money with lower costs in general with no deed rider from the State; can generate additional debt \$312,000 per unit. Option 4: rear parcel Town is in for \$21.3M to clear the lot and build 80 units; down to \$275,000 per unit. This is a rare opportunity; water and sewer are critical and the physical infrastructure is in place plus opportunities for the Town with the front parcel. Subsidy is broken up in cost for the land and cost for construction; the \$280,000 to \$360,000 is looking at cost per land versus rent. Recommends that the Town not manage this. Challenges include: availability of State funds for multiple projects; development entity limited to sole purpose; management for rental as well as TSA and overnight rental. Explained the opportunity costs, land cost for permitted lots with infrastructure versus cost of alternative options. If you can buy land with units for under \$610,000 per unit that's a better deal for the Town.

Schaeffer – Asked about the assessment of the front building.

McGuire – Explained how he and Mr. Holland came up with the value for the front building. He didn't to a comparative analysis.

Sullivan – It's hard to build a comparison because there aren't that many 20,000 square feet (SF) buildings built to commercial code with which to draw a linear comparison. The old FedEx office property at the end of Old South Road sold for \$650 per foot.

Schaeffer – Asked what kind of demand is the for a 20,000 SF building outside of Town.

Sullivan – Reviewed some of the larger business sales and explained why they aren't comparable.

Schaeffer – He is concerned about the discussion continuing without more concrete numbers.

Sullivan – The conversation perhaps should be the potential use of the properties.

McGuire – His analysis assumes \$12M for the front building.

Williams – Asked about the rear lot analysis. Asked what the affordable rent would be.

McGuire – Everything is restricted to 6% below medium income for State funding. We used a scenario that allows up to 150% of median income.

Roche – The shortest amount of time is not taking State money. The other options take 5 years to implement; asked how that impacts the SHI list.

Holland – The triggering mechanism when taking State money is the award of the tax credit.

McGuire – It's 15 to 16 months prior to completion; that's about three years before it impacts the SHI list. If you aren't using the State program, that time is cut in half.

Grause – Asked about the opportunity cost; the numbers say \$250,000 to \$360,000 per SHI unit.

McGuire – He's using 80%; to break even. If there is a price point of \$610,000, to put a deed restriction on a property at that price will cost \$335,000; that is derived in part from the affordable sale price.

Grause – If the Town is going to put capital to use for affordable housing and considering the alternative, the alternative might be the better deal. If the \$12M is wrong and it is \$60M, the costs just skyrocketed.

McGuire – It would be good to have common language on what it would cost to turn these into SHI units.

Holland – Looking at equivalent market prices and assumptions are all correct, this whole thing is hinged on the value of the front building. If we could find a market rate 2-bedroom unit for \$610,000 or less, then go with that. If you can't find that, this is the better deal. Surfside Crossing 40B is saying their condos are affordable at \$650,000 per unit.

Kronau – Asked if this is a good idea.

McGuire – There is property in the rear that can be reworked to provide seasonal housing and there are small units that can be used for senior or ADA accessible units. These opportunities don't come up a lot.

Maury – There was a rent quote for 1 bedroom 15 \$2100 and \$2459 per month; in his professional opinion, that is more in line with 2BR units. These are pretty aggressive estimates for

the rates would be. FinCom had asked the proponents of the next article to project out five years the cost of management; asked if that projection is in this packet.

McGuire – He would have to do some market research regarding the rent. It is critical that the assumption of the town be that this this project will be put in an Request for Proposal (RFP) that goes out to a not-for-profit or private non-municipal, entity to manage it so they hold the obligation. That takes the risk off the Town.

Maury – In Mr. McGuire’s analysis, the only cost for the Town is that for acquisition and development. If you compare the rent assumptions made here to the three applicants for the 6 Fairgrounds Road project assumed, the difference is what.

McGuire – That’s a good question. He went through the operating cost side but a check against 6 Fairgrounds is a good idea.

Roche – In your analysis, is there accounting for loss to the Town in taxes.

McGuire – He assumes the entity is pay taxes at the commercial rate.

Holland – He understands the current owners pay just under \$51,000 a year property tax and the room occupancy tax was \$212,000 in 2018.

Roche – The five years that the property is out of commission is \$1M; that loss needs to be added to the cost of the project.

McGuire – A way to mitigate that is to make an agreement to allow the current owner to operate until the fall. It’s a lot to digest; he’s happy to follow up questions through Mr. Holland.

Holland – This is a complex project but he believes it is worthy of investigation. The AHTF has voted to financially support consulting work that might answer committee members’ questions; we’ve been able to contact people with the necessary expertise to do that. The analysis of potential opportunities with the front building still needs to happen. This has to have value beyond the housing.

Worth – We’re looking at \$12M for the front building that isn’t concrete depending on a number of uses; asked how they will drive the discussion and analysis so that voters of the Town this can be achieved.

Holland – He’s been connected with a firm that specializes in evaluation of properties from a commercial standpoint. They can give a real number to the value of the front portion and the rear portion.

Worth – We would ultimately go into ATM without having a use for the front building.

Roche – There is no reason the Town couldn’t sell the front building.

V. REVIEW OF ARTICLE 37 (APPROPRIATION; ACQUISITION OF EXISTING PROPERTIES FOR AFFORDABLE HOUSING PURPOSES)

Discussion **Rick Atherton** – He and Mr. Glidden brought this article forward; we agree a driving force is the fact 40Bs are a big problem that disrupt the neighborhood. Much of the discussion is what is coming down the line and will impact the SHI list. The Richmond units will give us two years of safe harbor and will be approved within a couple of weeks. Three years down and beyond we are looking at annual safe harbor. The risk is that at some point in the process, we are exposed to a 1-year safe harbor issue; the Town doesn’t support concentrated, dense developments in neighborhoods. If we have money available and need it, the Town can purchase properties and count them toward the SHI list. It’s not just about the money; it’s about neighborhoods.

Tobias Glidden, article sponsor – Reviewed the article and what the program might look like. He met with Sarah Alger, Sarah F. Alger P.C. to discuss the opportunity of including buying deed restrictions within the article. Having gone through the financials and finding it can be executed for under \$30M, he wants to change the article down to \$20M. Reviewed the capital expenses based upon the units he derived from the 11 properties he looked at: possibility of 25 units total; laid out rents for 80%, 100%, and 120%; project \$685,000 in rent per year. If 20% of the units are rented at 80% all of the units count toward the SHI list. Reviewed potential expenses; the operating income would work out to about \$492,000 in the worse-case scenario.

Kronau – Appreciates the numbers.

Williams – Asked where the State stands in getting a 1% loan.

Glidden – He wanted a worst case scenario; sure we could get State money.

Turbitt – The amortization would be modeled based on our financial policy; 4% is reasonable.

Kronau – Asked if there are 11 available properties.

Glidden – A team should look at properties, not one person; we're also looking at the market at the time of availability.

Worth – Two issues: management fee is zero so how would it be managed; the next issue is the Town crowding out buyers of people who might be able to purchase these houses for themselves.

Glidden – In reality the Town would purchase perhaps 1 to 3 units per year over several years in response to the SHI list. The Town wouldn't be exerting force on the housing market; plus the Town wouldn't purchase properties above a certain price range.

Atherton – In the aggregate, houses occupied by year-round residents has been going down compared to purchases by investors. Hopefully we would be buying from investors, not residents. This article also talks about an override; the debt service would be minimal and could be tucked into the affordable housing budget.

Worth – It would be a crowding out of younger people who want to buy summer homes; that is a legitimate concern.

Atherton – Borrowing the money isn't an issue. Mr. Turbitt can borrow of money on a short-term basis.

Matt Fee – Asked if the houses, which Mr. Glidden looked at, sold and to whom.

Glidden – All the houses sold and it was a mix of residents and investors.

Fee – The reason we have fewer homes, we are dealing with more affluent off-Islanders.

Glidden – In 2008, we lost a lot of year-round people; and their homes sold to summer people who bought properties at the bottom of the market. The management fees the DHCD monitoring ensures the units are SHI eligible, repairs and maintenance is a management fee, and unit fees.

Maury – There is no management fee because it assumes the Town is using an employee. To the extent a professional manager is needed, it should show up in that line item.

Worth – He's concerned about the number; these will require attention. He'd like to hear about where management would reside and who would be responsible.

Glidden – Asked Ann Kuszpa to address that. The Town could put together an RFP for a manager.

Grause – Asked why not fund this at \$3M to \$5M for a year and prove the concept.

Glidden – His experience in government is that the Town doesn't like people coming back asking for money again.

Worth – Asked if he'd expand the wording to allow latitude to Select Board to expend these funds in other programs that might have housing opportunities.

Maury – The stipulation is that the funds have to go to creating SHI eligible housing.

Ann Kuszpa, Executive Director Housing Nantucket – This is our business model; we would be very interested in fine-tuning to manage this housing.

Roche – Asked Mr. Glidden to describe the process of purchasing property.

Glidden – AHTF is set up to evaluate and recommend purchase of a property; the Select Board would authorize expenditure of funds for that.

Roche – The total cost over five years is \$17M for 25 units to be available very quickly. Nantucket Inn the quickest availability would be 1 year without State funding.

Holland – It is correct the assumptions are 25% of units are restricted at 80% and all units would count. DHCD as the arbiter indicates we can have scattered sites and have them all count. It would be on a site-by-site basis; if one of three units is 80%, all three count.

Worth – If you can't have all counting toward the SHI list, questions the impact.

Glidden – He looked at each parcel and noted that one unit on each parcel would be 80% annual median income (AMI).

Williams – Asked who pays for vacancy or non-payment.

Glidden – That is accounted for.

Maury – If DHCD requires all units be 80% AMI, that potential rent is \$532,000.

Glidden – How long it takes to get a unit onto the SHI list would take about a year, if you purchase property tomorrow.

Kuszpa – It takes a long time to get a unit on the SHI list and meet safe harbor. Regarding the 80% AMI units, you could have the 100% and 120% in the mix but 25% of units on one property must be 80%.

Williams – Asked if the Town would get a mortgage for individual houses.

Turbitt – We would do short-term debt and roll it into whatever we are doing.

Sullivan – Speaking for AHTF, he likes the idea of creating more affordable housing using a buy-down method. AHTF has sought people interested in participating in the program. Once that feedback is received, we can get more concrete numbers. He is concerned about the thought of purchasing 24 houses in one year.

Maury – This isn't a tool to reach safe harbor but to move that direction.

Glidden – This addresses water quality and living because these are pre-existing structures.

Worth – Asked if other communities have done this.

Glidden – That's a great question but he's not sure how to research that.

Maury – The voters would like to know if this has proven successful elsewhere.

Roche – Denver.

Worth – Asked again for broadening the language to grant the Select Board latitude on how the funds are used for housing.

Jill Vieth – If you buy something not is zoning, how do you address that; are you buying houses on septic or on Town sewer.

Glidden – All the units comply with current zoning; they all have pre-existing zoning. Some were duplexes, some have tertiary apartments. The properties he looked at were not all sewer and water.

VI. NEXT MEETING DATE/ADJOURNMENT

Date: Monday, March 4, 2019; 4:00 p.m.; 4 Fairgrounds Road Community Room

VII. COMMITTEE REPORTS

None

Motion to Adjourn at 6:11 p.m. accepted by unanimous consent.

Submitted by:

Terry L. Norton